

Have It All, Part 3 - San Mateo Midstream's Delaware Basin Gathering Systems

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The run-up in Permian crude oil production over the past few years — and the expectation of continued gains — has been spurring the development of a number of crude gathering systems in the play's Midland and Delaware basins. These small-diameter pipeline networks are critically important to producers and shippers in that they enable them to transport crude more quickly and cost-effectively than by truck, and (ideally) they connect to takeaway pipelines that flow to multiple destinations. But there is more than one approach to developing a gathering system. For example, a midstream company could plan a system that appeals to several producers in an area and then try to sign them up. Or, it might work closely with a single producer — sometimes an affiliated company — and design a gathering system to meet its specific needs, then work to add other producers and shippers later. Today, we look at the West Texas and southeastern New Mexico systems developed by a joint-venture company of Matador Resources and Five Point Energy to serve Matador and others.

This is the third episode in our series. In [Part 1](#), we said that while crude gathering systems, with their smaller-bore pipes and lower capacities, might at first glance seem like secondary players in the midstream space, they actually play significant roles in reducing transportation costs and maximizing producer and shipper profits. We noted that successfully developing gathering systems requires a keen understanding of three key factors: lining up producer commitments, providing takeaway optionality, and minimizing the total cost of moving crude from the lease to the Gulf Coast, Cushing or other destinations. And we discussed the newly announced Beta Crude Connector, a 100-mile-plus, 150-Mb/d gathering system that a joint venture of Concho Resources and Frontier Energy Services is developing in the heart of the Midland Basin. In [Part 2](#), we discussed another Midland-area system: Reliance Gathering's 185-Mb/d pipeline network, which was originally developed to serve affiliated producer Reliance Energy, but which has since undergone expansions to serve a number of other producers.

Today, it's San Mateo Midstream's turn. The Dallas-based company was formed in February 2017 by Matador Resources (a producer in the Permian, Eagle Ford and Haynesville) and Five Point Energy (a private equity firm that focuses on energy infrastructure) to build, own and operate crude oil gathering systems, associated gas gathering systems, natural gas processing plants, and produced-water gathering systems and disposal wells in the Delaware Basin. So far, the crude gathering systems it's developed only serve Matador's wells, but its gas gathering systems, two gas processing plants and produced-water networks serve other producers as well as Matador.

Matador Resources' primary focus is the Delaware Basin, where (as of the end of 2018) the exploration and production company (E&P) had 132,000 net acres, proved reserves of more than 190 million barrels of oil equivalent (MMboe), and production averaging about 50 Mboe/d — about 35 Mb/d of that being crude. Virtually all of the company's acreage in the basin is located within three counties: Eddy and Lea counties in southeastern New Mexico, and Loving County just across the state line in West Texas. Most relevant to our discussion today, Matador's Delaware Basin production has been rising fast — up 49% year-over-year between the fourth quarters of 2017 and 2018 — which makes it all the more important for the company to shift from trucking most of its crude to gathering it by pipeline.

As we noted above, San Mateo develops the complete gamut of midstream infrastructure — not just crude gathering systems but gathering systems for associated (unprocessed) gas, gas processing plants, and systems for gathering and disposing of the produced water that emerges from the lease with crude and associated gas. The blue and yellow lines in the two insets in Figure 1 show the

extent of the gathering systems (crude oil and associated gas) that San Mateo Midstream has developed to date. (We'll discuss the company's expansion plan in a moment.) The other lines on the map represent the existing (solid) and planned (dashed) crude takeaway pipelines out of the Permian, discussed in our [Hard Hat and a Hammer series](#) and other blogs.

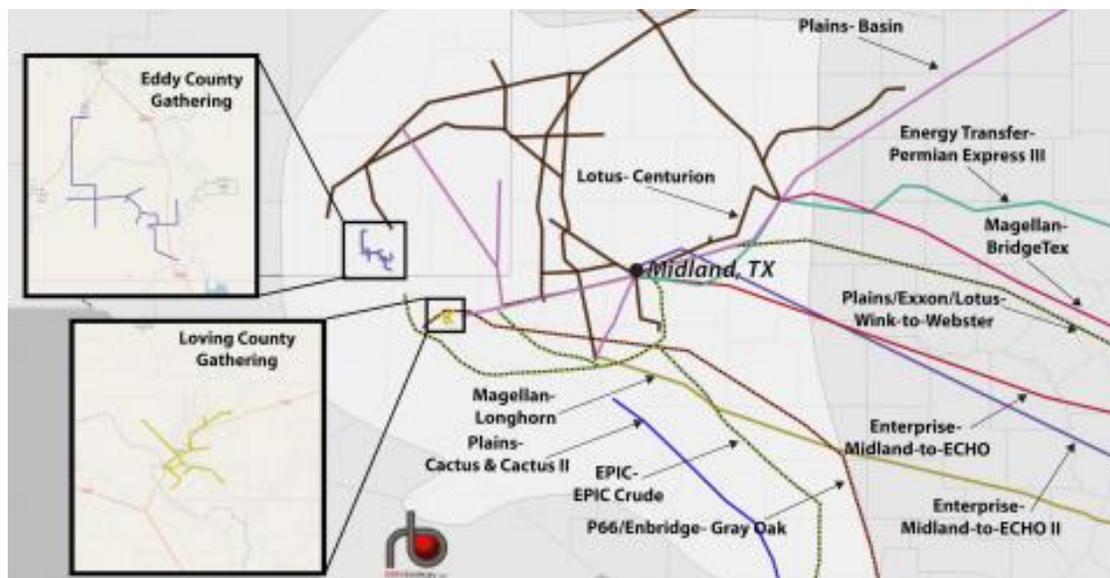


Figure 1. San Mateo Midstream's Delaware Basin Gathering Systems and Permian Crude Takeaway Pipelines. Sources: San Mateo Midstream and RBN (Click to Enlarge)

In Eddy County (NM), San Mateo Midstream in August 2018 completed its new Rustler Breaks Pipeline System (blue lines in upper inset), a crude gathering system that includes about 17 miles of 10-inch-diameter pipe that since December 2018 has been interconnected with a newly constructed extension to Plains All American's Basin pipeline system. The development of the Rustler Breaks system, which also has 40 Mbbl of operational storage capacity, is the result of a strategic relationship that San Mateo and Plains entered into in January 2018 to gather and transport crude from Matador Resources and other producers within a roughly 400,000-acre "joint development area" in Eddy County, and offers shippers a joint tariff to move crude from the wellhead to Midland, TX. At Midland, the crude can either continue on Plains-owned takeaway pipelines or be transferred to other pipes. In Loving County (TX), San Mateo Midstream owns and operates more than 40 miles of mostly 8-inch-diameter gathering pipeline (yellow lines in lower inset) and has 20 Mbbl of operational storage that came online last May. As of January 2019, flows through the Rustler Breaks and Loving County systems averaged 26 Mb/d; those volumes are expected to increase significantly this year and in 2020 as additional wells are connected to the systems. San Mateo has indicated that the systems are sized to support growing volumes from Matador and from other producers in the joint development area with only minimal capital investment.

As we understand it, Plains Marketing at the wellhead buys all of the barrels that flow onto San Mateo Midstream, and maintains ownership of the barrels at least until Midland, where producers or shippers may arrange to buy the barrels back. We should note that in addition to its crude gathering systems, San Mateo Midstream owns the 260-MMcf/d Black River gas processing complex in Eddy County, as well as more than 55 miles of associated gas gathering pipelines and more than 70 miles of produced-water gathering pipelines, and nine disposal wells in Eddy and Loving counties.

In February 2019, Matador Resources and Five Point Energy announced a second midstream deal — dubbed San Mateo II — under which San Mateo Midstream will develop new Eddy County crude gathering systems in the Stebbins production area north of Rustler Breaks and the Stateline production area south of Rustler Breaks. San Mateo has indicated that each of the two nearby

systems is likely to have 8 to 10 miles of crude gathering pipe. The San Mateo II plan also calls for constructing a new 200-MMcf/d gas processing plant at the Black River complex by mid-2020, and building new gas and produced-water gathering pipelines in the Stebbins and Stateline areas. In support of the plan, Matador dedicated production from more than 25,000 gross acres in those areas to the new midstream assets San Mateo will develop.

The build-out of the existing San Mateo Midstream crude gathering system (and the joint venture's other midstream assets) and the plan to add new gas gathering systems soon is further evidence of the steps producers and midstream companies are taking to accommodate the rising volumes of crude being produced in the Permian and their anticipation of further production gains into the 2020s. In the next blog in this series, we'll look at yet another major crude gathering system in the Permian.

"Have It All" was written by Jason Mraz and members of his live backup band *Raining Jane*: David Hodges, Jacob Kasher Hindlin, Mona Tavakoli, Chaska Lela Potter, Mai Sunshine Bloomfield, and Rebecca Emily Gebhardt. It was the lead single from his 6th studio album *Know*, and went to #10 on the Billboard Adult Top 40 chart. Mraz says the song's inspiration came from a spiritual encounter the singer had while traveling in Southeast Asia. *Know* was produced by Mraz and Andrew Wells, and released in August 2018. It went to #9 on the Billboard Top 200 Albums chart.

Jason Mraz is an American singer-songwriter. His use of nylon stringed guitars and Brazilian rhythms help to make his song stylings unique. He has released six studio albums, five live albums and 17 singles, and has sold more than 7 million albums and 11 million downloaded singles. Mraz has won two Grammy Awards and two ASCAP Awards. He still records and tours to this day.