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Let's Work Together – Midstream Companies Combining to Gain Scale, Fill in Asset Gaps

As With Upstream M&A, Many Deals Focus on the Permian

- **Acquisitions can enable a broader range of services — and more destination optionality.**
- **M&A also allows companies to boost their asset base in key production areas.**
- **The all-important Permian Basin is, as expected, at the center of many deals.**
- **More acquisitions are likely, but recent M&A has been limiting the number of targets.**

1. Introduction

The ongoing consolidation in the upstream portion of the oil and gas industry has garnered a lot of attention, most recently regarding ExxonMobil's planned $64.5 billion acquisition of Pioneer Natural Resources. The scrutiny these deals have been receiving makes sense, given the obvious significance of crude oil, natural gas and NGL production to the broader U.S. economy. But there's also been a lot of M&A activity in the midstream space as the companies that gather, process, transport, store and export hydrocarbons seek to gain the scale, scope and synergies they think they will need to succeed in an increasingly competitive industry. In this new Drill Down Report, we discuss the major midstream deals of 2022 and 2023 to date.

There are a number of reasons why large midstream companies want to get bigger, either by acquiring smaller midstreamers or merging with near-equals. For many, buying another company and its set of assets gives the acquiring firm entrée to — or additional scale in — an important and/or growing production area or two. For others, an acquisition or merger enables them to provide the full range of well-to-consumer or well-to-water midstream services — say, gas processing plants, NGL pipelines to Mont Belvieu, fractionators and NGL export capacity.

Unsurprisingly, many of the midstream deals announced over the past couple of years involved the acquisition of companies with extensive holdings in the all-important Permian, which is by far the U.S.'s top crude oil production area and also a major supplier of natural gas and NGLs. Of course, the Permian has

been a leading hydrocarbon supplier for decades, but constant improvements in horizontal drilling and well-completion techniques — not to mention an increasingly sophisticated understanding of the rock and resources below ground — since the mid-2010s has transformed the West Texas/southeastern New Mexico play into an unrivaled production powerhouse.

The resulting demand for midstream infrastructure — including gathering systems (for crude, associated gas and produced water), gas processing plants, takeaway pipelines (for crude, natural gas and NGLs), storage facilities, fractionators, and export terminals — led to an unprecedented build-out the likes of which the oil and gas industry hadn't seen since the end of World War II. While a significant portion of the midstream development over the past eight to 10 years was undertaken by large publicly held companies or master limited partnerships (MLPs) like Enterprise Product Partners, Energy Transfer, Targa Resources, ONEOK and Magellan Midstream Partners, many other important projects were developed by privately held midstream companies backed by private equity.

Now, with many publicly held companies looking to gain further scale and scope — and many private-equity-backed midstream companies looking to cash in on their well-timed, well-planned developments or combined with other privately held firms to improve their synergies (and maybe make themselves even more attractive M&A targets in the future) — it could be argued that conditions for large-scale midstream M&A have never been better.

Energy Transfer (ET) is a prime example of this "race to consolidate." It has been on an M&A roll since the late 2010s, with all the deals aimed at giving the company the additional size and reach it believes it will need to compete in an increasingly consolidated midstream sector. ET's carefully thought-out buying spree started in earnest back in 2019, when the company paid about $5 billion in stock and cash for SemGroup. Most important, perhaps, that deal gave ET the massive Houston Fuel Oil Terminal (and its more than 18 MMbbl of storage capacity, five deepwater docks and seven barge docks) on the Houston Ship Channel. The SemGroup acquisition also provided ET with crude gathering assets in the Denver-Julesburg (DJ) Basin in Colorado and the Anadarko Basin in Oklahoma and Kansas, plus crude oil and NGL pipelines from the DJ to the Anadarko.

Then, in December 2021, ET closed on the $7.2 billion acquisition of Enable Midstream, which further augmented the synergies ET had already achieved, particularly regarding NGL flows into its Mont Belvieu fractionation complex and its export facilities, as well as flows of natural gas through Louisiana's central gas corridor to LNG and industrial demand along the Gulf Coast.

Over the past 12 months, ET announced two major deals valued at a total of more than $8.5 billion, the first being its May 2023 stock-and-cash purchase of Lotus Midstream from an affiliate of EnCap Flatrock Midstream. The Lotus acquisition, valued at $1.45 billion, gave ET next-level scale in the Permian. For one thing, Lotus owned the 1,000-mile Centurion pipeline system that links the Permian with the crude oil hub in Cushing, OK. For another, Lotus's assets made it a master of "destination flexibility" — namely, the ability to give crude oil producers and shippers direct access from the Permian's Midland and Delaware basins to a variety of destinations: the Houston area, Corpus Christi and Cushing, as well as a few refineries along the way. That optionality helps market players get the best price for their oil, largely by taking advantage of the differentials between market hubs.

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Crestwood's Assets in the Williston and Delaware Basins

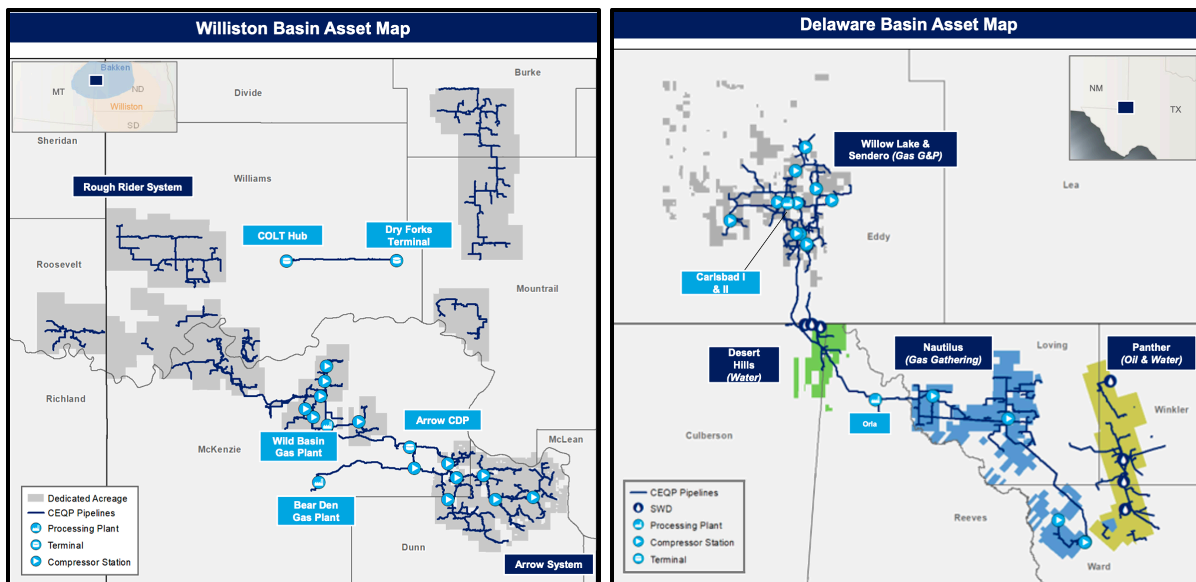

Figure 1. Crestwood's Assets in the Williston and Delaware Basins. Source: Energy Transfer

More recently, in August, ET announced one of its biggest purchases yet: a deal valued at $7.1 billion ($3.8 billion of ET stock and the assumption of $3.3 billion in debt) to acquire Crestwood Equity Partners, an MLP with extensive gathering and processing assets in the Permian, Powder River and Williston basins, as well as NGL terminal and storage facilities east of the Mississippi. Details of the prospective transaction are in Section 2.2 of this report, but two elements of the acquisition stand out:

- In the Williston Basin (aka, the Bakken; map to left in Figure 1 above), Crestwood owns the Arrow and Rough Rider gathering systems, which together have the capacity to gather up to 250 Mb/d of crude oil, 420 MMcf/d of natural gas and 420 Mb/d of produced water. It also owns four gas processing plants with a combined capacity of 430 MMcf/d and the COLT Hub, which has 1.2 MMbbl of crude oil storage capacity and the ability to load up to 160 Mb/d into rail tank cars.
- In the Permian's Delaware Basin (map to right in Figure 1) in West Texas and southeastern New Mexico, Crestwood owns four gas gathering systems with a combined capacity of more than 1.1 Bcf/d; three gas processing plants (combined capacity, 613 MMcf/d); the Panther crude gathering system (capacity, 90 Mb/d) and two produced-water gathering systems (combined capacity, 354 Mb/d). The MLP also owns an undivided interest in 80 Mb/d of capacity on a segment of the EPIC NGL Pipeline from Orla to Benedum in West Texas.

We should point out that Crestwood acquired a number of these assets through recent deals of its own. In February 2022, for example, it closed on the $1.8 billion purchase of Oasis Midstream Partners (with assets in the Bakken and the Delaware) and in July 2022 it bought Sendero Midstream Partners (also with Delaware assets).

While no two transactions are alike, there is a common theme for most — but not all — of the other deals we discuss in this report: gaining scale in the Permian. A case in point is Targa's July 2022 acquisition of Lucid Energy Group from Riverstone Holdings and Goldman Sachs Asset Management for $3.55 billion in cash. The deal expanded Targa's already large gas gathering and processing footprint in one of the fastest-growing parts of the Permian and boosted flows and profitability through its pipeline, fractionation and export assets.

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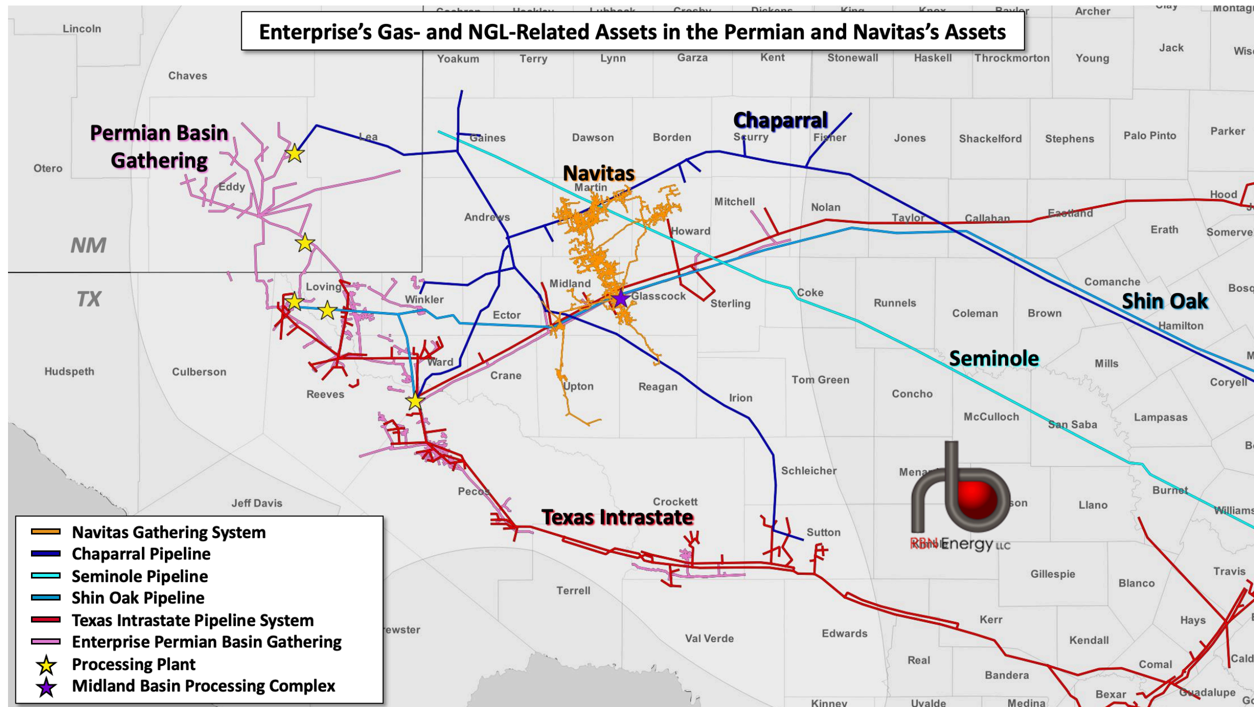

Figure 2. Enterprise's Gas- and NGL-related Assets in the Permian and Navitas's Assets. Source: RBN

Similarly, Enterprise's February 2022 purchase of Navitas Midstream Partners (from an affiliate of Warburg Pincus for $3.25 billion in cash) gave the acquiring company — already a major player in Delaware Basin gas gathering and processing and takeaway pipelines for both gas and NGLs — its first major gathering system and gas processing mega-complex in the Midland Basin (orange lines and purple star in Figure 2 above). Acquiring Navitas roughly doubled the size of Enterprise's gas gathering system in the Permian (to about 3,500 miles of pipe) and increased its gas processing capacity in the play by more than 60% (to 2.6 Bcf/d), thereby vaulting Enterprise into the top tier of gas processors there. More important, perhaps, the acquisition gave Enterprise an integrated, expandable gas gathering system — and five new or nearly new gas processing plants — at the epicenter of Midland Basin production activity (see Section 6 for details).

The only M&A transaction that doesn't fit the mold is ONEOK's September 2023 acquisition of Magellan, a cash-and-stock deal valued at a staggering $18.8 billion. The recently closed transaction, which created the second-largest U.S. midstream company by market capitalization and the fifth-largest by enterprise value, combined a firm best known for gathering, processing and transporting natural gas and NGLs (ONEOK; left pie chart in Figure 3) with one that was focused primarily on moving crude oil and refined products (Magellan; middle pie chart). The resulting company (right pie chart) is much more diverse in its offerings and revenue base.

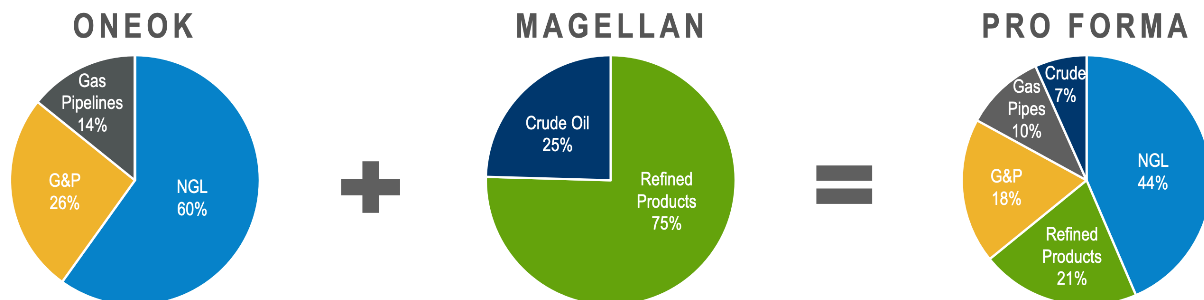

Figure 3. How Magellan Acquisition Diversified ONEOK's Business. Source: ONEOK

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In announcing the Magellan deal in May, ONEOK executives said the acquisition would result in a more resilient company with an improved ability to generate steady cash flows through diverse commodity cycles. They also cited the potential for significant cost and operational synergies. ONEOK also talked up the potential for bundling opportunities — that is, offering producers in some plays the ability to transport multiple commodities. For example, while Magellan could offer only crude service in the Permian, the ONEOK/Magellan combo will be able to offer crude and NGL service.

In this Drill Down Report, we discuss each of the major midstream M&A deals of 2022 and 2023 to date in detail, noting the primary assets of both the acquiring company and the acquired one.

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The Table of Contents for "Let's Work Together: Midstream Companies Combining to Gain Scale, Fill in Asset Gaps" is included on the following page.

Table of Contents

1. Introduction .... - 1 -
2. Energy Transfer Acquisitions .... - 7 -
2.1 ET's Acquisition of Lotus Midstream .... - 7 -
2.2 ET's Planned Acquisition of Crestwood Equity Partners .... - 9 -
2.3 Other Acquisitions by ET .... - 10 -
3. ONEOK's Acquisition of Magellan .... - 12 -
4. Targa Resources' Acquisition of Lucid Energy Group .... - 14 -
5. Altus Midstream/EagleClaw Midstream Merger to Form Kinetik .... - 17 -
6. Enterprise Products Partners' Acquisition of Navitas Midstream .... - 19 -
7. Conclusion .... - 21 -

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