

## Q&A

Executive Profile



# Summit Brings Deep Pockets To The Midstream

By Jeff Share/Editor



**S**ummit Midstream Partners is one of numerous oil and gas companies that have evolved in the midst of the shale revolution that has changed the energy landscape of America.

The company was formed in early 2009 through an investment by Energy Capital Partners, LLC, a multibillion-dollar private equity firm focused on investing in North America's energy infrastructure. In August, Energy Capital Partners sold an interest in Summit to GE Energy Financial Services. The company said the combination provides the capital support needed for Summit to either build, buy, or partner on projects ranging from \$50 million to more than \$2 billion.

Steve Newby is president and CEO of Summit Midstream. He is a graduate of the University of North Carolina at Chapel Hill and has a BS in Business Administration with a concentration in Finance.

In October Summit signed a deal with Encana Oil & Gas (USA) Inc. to acquire natural gas midstream assets located in the South Piceance Basin in the Rockies for \$590 million. This includes 260 miles of pipeline and 90,000 horsepower of compression facilities.

**P&GJ:** What was the strategy behind the creation of Summit Midstream? What do you think makes Summit unique among midstream companies?

**Newby:** Summit was formed to take advantage of the enormous growth opportunities in the midstream industry as a result of the proliferation of unconventional production. We're unique because we follow our "Buy, Build, Partner" growth strategy in these unconventional areas. We have a proven and experienced engineering and development capability (Build); significant M&A experience within our senior management team (Buy), and a proven track record with producers and other strategic players in partnering to execute growth projects or maximize assets (Partner). All of this is supported by our large capital backing with Energy Capital Partners and GE

Energy Financial Services. We maintain \$1 billion of equity availability from our investors, which makes us one of the better-capitalized private or public midstream companies.

**P&GJ:** What do you consider to be your core assets, and are you planning to expand or add to those asset either by new construction or M&A activity, particularly in regards to pipelines and compression?

**Newby:** Our core assets are located in the Barnett shale, where we are in the "core of the core" of the play and in the Piceance Basin, where we have one of the larger systems supporting one of the largest producers in the basin. We are actively constructing and expanding in both areas and continuously evaluate opportunities to expand our footprint.

**P&GJ:** What is your position in the Barnett shale, and when do you think activity will peak there?

**Newby:** Our gathering system in southeast Tarrant County has proven to have the highest production potential in all of the Barnett. Our system is the ultimate example of an urban build-out as the system is constructed underneath the city of Arlington, and contains some of the most environmentally sensitive compression in the country. The activity levels in our area have been steady even with the very low commodity price environment. The large well size in our area and less than 20% of the acreage being developed lends itself to continued, consistent drilling.

**P&GJ:** What was the reason behind the South Piceance purchase from Encana?

**Newby:** The purchase from Encana



gave Summit the opportunity to increase scale and diversity while also partnering with one of the leading producers in North America in a basin that is liquids-rich and provides attractive economics to producers. In addition, the emerging Niobrara and Mancos shale production in the area provides significant upside to our recently purchased assets.

**P&GJ:** Is this a signal that Summit will be significantly expanding its operations beyond the Barnett Shale?

**Newby:** We continue to have significant capital resources and opportunities to buy, build, and partner in multiple unconventional basins. We anticipate expanding our operations further in other unconventional natural gas and crude basins.

**P&GJ:** What is your background in the energy industry and who are some of the other top executives in the company?

**Newby:** My entire 16-year career has been spent in the oil and gas industry, and specifically the Master Limited Partnerships (MLP) industry. I came up through the banking and finance channel of the industry and was involved early on in raising capital for MLPs when the structure was in its infancy. I've seen the midstream space and MLPs go through many commodity and market cycles, but the opportunities for growth and development in the sector today are unprecedented.

Our senior team has more than 100 years of midstream experience and includes commercial, engineering, and operational personnel from leading industry players like Enterprise, El Paso, and Encana. Our key executives include Brad Graves, SVP of Corporate Development and a former Enterprise executive; Rene Casadaban, SVP of Engineering, Construction, and Operations and a former Enterprise and Exxon officer; Chad Small, SVP of Asset Management and a former EFH and Enron executive; and Joe Velasquez, VP of Operations and a former

El Paso and Enterprise executive.

**P&GJ:** What have been some of the challenges that you've encountered in the shale plays?

**Newby:** We call the development of shale infrastructure "interstate gathering." These plays are world-class and result in midstream companies putting in large-diameter pipe, large, centralized compression, dehydration, and sometimes treating and processing. Often, we're doing this in locations and terrain that are extremely challenging. These challenges are on the engineering and construction side, but to even begin that process you must have sufficient capital availability because the developments and large customers demand large financial resources to support them.

**P&GJ:** How does today's low price environment for natural gas affect your planning?

**Newby:** The low price environment, even for a company like Summit, which does not take direct commodity exposure, still presents challenges. We're partners with producers and in this price environment we must offer services that are competitively priced. In addition, this price environment has focused producers on "high grading" their acreage to drill their most economical areas. Midstream participants have to understand where those areas are that still support activity even in low-price environments. For planning, we have to work closely with producers to understand their needs and strategy so we can plan appropriately to provide our service.

**P&GJ:** In general, do you think there is enough infrastructure in place — particularly pipelines — to handle the rapid increase in natural gas supplies?

**Newby:** I sure hope not! No, we believe that the midstream build-out will continue for the foreseeable future, even in a sub \$5 gas price environment. I believe the recent ICF International had pipeline expendi-

tures over the last five years at almost \$9 billion per year, and they predicted the next 10 years would see \$7 billion per year. We think that number is low as the several of the massive shale plays like the Marcellus, Eagle Ford, and Niobrara are still in the early stages as far as midstream infrastructure goes.

**P&GJ:** What are some of the challenges as well as opportunities for a midstream operator today? How have you seen the midstream sector change in recent years?

**Newby:** The challenges we face are permitting, regulatory laws, labor, and terrain, not to mention the overall all gas price environment. The opportunities are significant given that the shale phenomena is still fairly new to the industry, and our customers' production growth is coming from areas that have historically not had infrastructure to support that growth. **P&GJ**

In addition, the low gas price environment has created M&A opportunities where producers are looking to monetize assets to raise capital for the drill bit. We believe the sector and its customer base is changing rapidly. The dramatic entrance into the North American onshore shale basins from oil and gas majors significantly changes the midstream industry.

Our customers are getting much bigger, and they typically require midstream companies to be larger or have larger capital positions to support their growth. Also, with majors, things like safety, engineering and operating capabilities, and balance sheet strength matter much more. There are significant differences between providing midstream services for smaller independents versus larger majors. If recent history is a gauge, it appears the majors will continue to consolidate the upstream positions in the shale areas, so we expect the midstream industry to continue to adapt. **P&GJ**