

Texas Pacific Land: Where Should the Next Water-Service Effort Go?

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A growing water business, with a cost question

Texas Pacific Land Corporation (TPL) is a landowner and owner of oil-and-gas royalty interests in West Texas. Its Water Services and Operations business, conducted through Texas Pacific Water Resources (TPWR), provides water sourcing, produced-water treatment, infrastructure development and disposal solutions to operators in the Permian Basin. TPL's filings describe two principal water-related revenue streams: sales of sourced or treated water and contractual royalties when produced water is transferred or disposed of on TPL land. TPL says it does not operate saltwater-disposal wells. [P1]

In 2023, the Water Services and Operations segment reported \$199.5 million in revenue and \$98.9 million in net income. Water sales were \$112.2 million, up 32.4% from 2022, while produced-water royalties were \$84.3 million, up from \$72.2 million. Water-sales volume increased 21.8%. [P1]

The business also incurred higher costs. Water service-related expenses rose by \$16.1 million, to \$33.6 million, an increase of 92.2%. TPL said some costs—including water purchases, treatment and transfer—vary as customers' needs change. It attributed part of the 2023 expense increase to higher demand arriving within shorter time commitments. Management said meeting that demand increased water revenue and operating income over the same period. The filing does not provide customer-level contribution margins or project-level costs. [P1]

Two paths already in motion

TPL invested \$15.2 million in TPWR projects during 2023 to maintain or enhance water-sourcing assets. It also acquired groundwater rights for \$3.8 million to access additional water outside its surface footprint, which TPL said could help manage fluctuations in customer demand. A separate \$17.6 million saltwater-disposal easement gives the company future disposal opportunities across about 49,000 acres. These are completed investments, not proposals awaiting approval. [P1]

In September 2022, TPL and WaterBridge announced a long-term alliance covering more than 64,000 acres in Loving and Reeves counties. The announcement describes complementary roles: TPL would contribute source-water capabilities and WaterBridge would expand produced-water management and infrastructure. The companies also said they were developing disposal and reuse solutions. The announcement does not report completed reuse projects, realized reuse volumes, customer commitments or project economics. [P3]

The question for the next phase

For this exercise, assume a hypothetical strategy team has been asked to present options for the next phase of TPL's water-services development. This assignment is created for classroom discussion; it is not a disclosed TPL management mandate. The completed 2023 investments and existing WaterBridge agreement are part of the starting position.

The team must decide how to sequence effort among three approaches:

1. **Emphasize source-water reliability and flexible response** to operators' changing locations and timing needs.
2. **Develop partner-led produced-water treatment and reuse** where a specific customer, quality specification and permitted outlet can be demonstrated.
3. **Stage both approaches behind evidence gates**, expanding only as customer commitments, water quality, contract terms, regulatory status and operating economics become clearer.

TPL's filings do not disclose a binding capital pool, a current water shortage, a treatment-capacity ceiling, or a required return for these choices. The strategy team must identify what information would make its preferred sequence more defensible.

Exhibit 1. Selected Water Services and Operations results

Reported measure	FY2023	FY2022
Segment revenue	\$199.5m	\$160.4m
Water sales revenue	\$112.2m	\$84.7m
Produced-water royalties	\$84.3m	\$72.2m
Segment net income	\$98.9m	\$81.3m
Water service-related expenses	\$33.6m	\$17.5m

Source: P1, Item 7 segment results and expense discussion. Segment revenue also includes a small amount of water-segment easements and other surface-related income. "Produced-water royalties" are contractual royalties on transfer/disposal on TPL land; they are not water sales or revenue from TPL-operated disposal wells. Water-service expenses include items such as water purchases, treatment and transfer. These measures are not customer-level margins.

Exhibit 2. Publicly disclosed strategic actions

Action	Disclosed status by cutoff
TPWR sourcing-asset projects	\$15.2m invested in 2023 to maintain or enhance sourcing assets
Groundwater rights	\$3.8m acquired in 2023 for access to additional water outside TPL's surface footprint
Disposal easement	\$17.6m acquired in 2023; covers about 49,000 acres and provides future disposal opportunities
WaterBridge alliance	Announced in 2022 as a long-term agreement over more than 64,000 acres; source-water, produced-water management, infrastructure, disposal and reuse are described as intended areas of collaboration

Source: P1, Item 1 and Item 7; P3. The WaterBridge release contains forward-looking statements. It does not establish later project completion or results.

Discussion questions

1. Which water-service path should TPL emphasize in the next phase, and what evidence would change your view?
2. How should TPL distinguish water-sales growth from contractual produced-water royalties when assessing the business?
3. What customer, quality, transport, contract, regulatory and cost information should be required before extending a sourcing, treatment or reuse project?
4. Which measures would show whether a staged approach is creating useful evidence without confusing segment growth with project economics?

Source key

- **P1:** TPL FY2023 Form 10-K, filed February 21, 2024, accession 0001811074-24-000015. Item 1, printed pp. 4-5; Item 7, printed pp. 24, 26-28. [SEC index](#)
- **P3:** TPL and WaterBridge, “Form Delaware Basin Water Development and Sustainability Alliance,” September 9, 2022, paragraphs 1-3 and forward-looking statement. [Issuer announcement](#)