



## BlueRock Energy Partners: Uniquely Focused on Small Producer Growth

At BlueRock Energy Partners, the team loves their dogs. “We often get folks saying, ‘oh, you’re the dog people’”, says Stuart Rexrode, CEO of BlueRock. The dogs in BlueRock’s advertisements have really caught the eye of potential clients and are now synonymous with the little pup growing to become the big dog. And BlueRock loves that. And what’s not to love about a success story that BlueRock can make happen, especially with the little guys.

For over 20 years, BlueRock has exclusively focused their efforts on the small producer, closing more than \$350 million worth of transactions, mostly in the \$1-\$5 million range. These customers often cannot secure adequate advance capital from a commercial bank to fund their development plans. Or simply do not want to sell down any of their project upside to industry investors. If the customer has existing production with development upside, it could be a perfect fit for BlueRock. “We like to call ourselves temporary partners, because our non-recourse structure provides significant flexibility, we take production and price risk right alongside the client, and once we hit our rate of return, we are out of the deal, leaving virtually all the upside to the client. Hence, a temporary partner,” states Rexrode.

In fact, BlueRock changed its name to BlueRock Energy Partners to reflect this approach. “With BlueRock, you get the certainty of capital cost like a bank; however, like equity, you get a repayment structure that matches your realized cash flow profile, so you get the best of both worlds. We like to think of ourselves as cheap equity.” The capital facility is front end loaded, and the producer retains virtually all of the economic upside in the project. This structure provides a much higher level of overall net present value to the producer, and thus a lower cost of capital, as compared to selling down a working interest to a standard industry partner.

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While BlueRock often gets grouped in with traditional mezzanine lenders, their structure really is quite different from the typical mezzanine loan/equity kicker structure. BlueRock exclusively utilizes a financial production payment, structured as a temporary overriding royalty interest, that’s non-recourse and free of any financial covenants. “We simply choose good assets, with good people, and a good development plan and go along for the ride,” says Rexrode. “We aren’t interested in owning foreclosed assets that might be a result of unmet covenants. We will work with the client flexibly to get them through rough patches. It’s in our interest to keep them in business to maintain the project and hopefully add repeat business in the future.”

BlueRock has been executing on the same structure for over 20 years, however, the market has definitely changed. The business was once primarily a finance engine for small producers buying properties at attractive price points with respect to PDP assets and development upside. Over the last 10 years, with the proliferation of bidding and auction sites for properties, the acquisition market has become much more efficient with full market and premium prices being paid. In the last 5 years, more BlueRock deals are now development drilling projects whereby the client already owns PDP assets and is looking for growth capital. “These transactions really can super-charge a small player because the advance capital can go exclusively to bringing more production online through a PUD drilling program, instead of going to the property seller in an acquisition.”, says Rexrode. In fact, the advance rate against PDP assets can be twice the level of a senior debt facility. Having said that, BlueRock still is closing acquisition financings when the purchase price reflects a reasonable value against PDP

Deal analysis is very efficient, and deals can often be scoped in one day with production and LOE historical data. All deal analysis partners at BlueRock are engineers and geologists and have been evaluating oil and gas projects for 30 years. All technical evaluation is done in house and there is no need for a third party reserve report.

At BlueRock, they are always looking for the next big dog.