

BlueRock Energy Partners

BlueRock Energy Partners calls itself “the unique capital providers for small producers.” For more than 20 years, BlueRock Energy Partners has been providing growth capital to small independent E&P companies, often providing funds for projects that are deemed too small to obtain traditional bank financing. In total, BlueRock has provided more than \$375 million in small transactions.

Typically it provides capital ranging from \$1 million to \$20 million to producers for reserve-based acquisitions

selling equity,” said Stuart Rexrode, CEO of BlueRock. “Our ideal client has an established track record, regional expertise and an executable development plan.”

“BlueRock provides the growth capital you need, and you provide us with a term overriding royalty interest until we achieve a contractual rate of return. Once the rate of return is met, the overriding royalty interest is conveyed back to you, and BlueRock may retain a small permanent override in the project,” Rexrode said.

“There are some significant differences in both how we calculate our advance rate and how we structure our

return. It helps to think of our capital as a better alternative to permanently selling off your equity in the project. Our goal is to give the property back to you along with the upside.”

Most transactions are priced between 15% and 18%. Upon achieving the rate of return, BlueRock will retain a small permanent override in the project, typically between 1% and 3%.

“It is nonrecourse, no personal guarantees are required, and you maintain your interests, upside and control in the project. The level of cash flow and value you ultimately receive is far greater than if you sold down your working interest to a typical industry partner,” Rexrode said.

“We take the production, reserves, and price risk right alongside the producer. And, price hedging is not required. We do not look to additional

assets within your company for collateral coverage, like a bank would,” Rexrode said.

“We will fund development drilling. However, we do not fund pure exploration plays. We like projects supported by at least three producing wells with multiple upside opportunities included in the work plan.”

BlueRock’s partners originated and managed the producer finance business at Tenneco Ventures in 1993, which subsequently became Domain Energy and later Range Energy Finance Corp.



“Our goal is to give the property back to you along with the upside.”

—Stuart Rexrode

and monetizations with associated production enhancement and/or development. Most of the deals have been under \$10 million.

To potential borrowers it asks: Do you need growth capital, have current production, and want to retain your project’s potential upside without having to personally guarantee a loan?

“Our growth capital has provided clients with a lower cost alternative to

transaction. Banks typically lend between 45% and 60% of the existing PDP reserves at a PV-10,” Rexrode said.

“They [banks] will also give some minimal value for PDNP and PUD reserves. We, on the other hand, will actually advance up to 10 years of the undiscounted PDP cash flow, when coupled with an attractive upside development plan,” Rexrode said. “The results of a sound development plan should be sufficient to pay the transaction off within three to six years, including BlueRock’s contractual rate of

Summary of Advantages

- Client retains upside and control of project
- Provides more capital than a bank
- No personal or corporate guarantees
- Investment team: engineers, geologists and financial professionals
- Simple deal structure and reporting requirements
- No third-party engineering reports required
- Repeatable and expandable
- Cost of capital may be tax deductible
- Favorable accounting treatment may apply

How It Works

- Investment Size: \$1 million to \$20 million
- Deal Structure: A nonrecourse financial production payment via limited term overriding royalty and small permanent overriding royalty after payout
- Use of Proceeds: Acquisitions, development plans, and monetizations
- Timing: Simple deal structure results in minimal documentation and the ability to close in less than 30 days
- Closing Costs: Closing costs are nominal with no hidden fees
- Hedging: Hedging is not required
- Area: Lower 48 (USA)

Source: BlueRock Energy Partners

BlueRock's organization includes engineers, geologists and finance professionals, all having industry experience prior to entering the project-finance business. "We understand our clients' obstacles because we have lived them ourselves," he added.

BlueRock client Brett Owens, vice president, Paterfamilias LP, an E&P company, offered this testimonial:

"BlueRock offered us an opportunity to break a cycle of limited capital with a traditional bank financing and to finance some key projects that allowed us to take our family-owned company to another level. We had assets we believed in, and our financing with BlueRock afforded us the capital we needed without having to sell a portion of that upside we were working for and anticipating.

"Working with BlueRock we were able to close our transaction on time and get to putting the capital to work. When parts of our projects changed, BlueRock worked with us to adapt and expand our financing. Managing our relationship was simpler than with a bank. Even after the conclusion of our most recent financing with BlueRock, our relationship persists and we speak with the team regularly on new possible ideas and projects." ■



www.bluerockep.com