

Brigham Resources Is Back in Business with Permian, Illinois Plans



Q&A: Brigham Is Back In Business With Permian, Illinois Plans

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A few blocks from Statoil ASA's offices along the Colorado River in Austin, former Brigham Exploration Co. managers are at work again on building an E&P like that they sold to Statoil in 2011 for \$4.4 billion in cash and \$300 million of assumed debt.

Bud Brigham, chairman of start-up Brigham Resources LLC, launched the predecessor in 1990 with \$25,000, wildcatting across West Texas, the Anadarko Basin and, later, the Gulf Coast with 3-D seismic. In 2005, Brigham took up the unconventional resource tack, finding success with fracked horizontals in the Bakken.

Now, with \$650 million of equity commitments from Warburg Pincus LLC, Pine Brook Partners LLC and Yorktown LLC, the new company aims to build a portfolio of three to five unconventional resource projects—going after another home run or a series of singles. Initial holdings are some 50,000 net acres in the Permian's southern Delaware Basin and some 50,000 in the southern Illinois Basin.

Gene Shepherd, CEO and formerly Brigham Exploration's CFO, says, "We've set a pretty high bar for ourselves. If we're half as successful in the Permian or the Illinois Basin as we were in the Williston, we'll have done really well."

Shepherd had joined Brigham Exploration in 2002 from 20 years of energy-industry investment banking and E&P operations, including a stint in West Texas as a petroleum engineer for Amoco Production Co. Oil and Gas Investor visited with him recently on his plans.

Investor You and Bud didn't go back to the Bakken.

Shepherd Yes. As a company, we tend to look for early-stage opportunities. When we entered the Bakken in 2005, it was early. Back then, we were paying \$100 to \$150 a net acre for Tier One acreage. After we sold, we agreed we wouldn't compete with Statoil for a period of time. We had left a lot of good friends behind and we wanted Statoil to be successful.

Furthermore, high-quality acreage in the Bakken had become very expensive.

Investor Your equity commitments came together in April 2013. How did you spend your 2012?

Shepherd We spent a fair amount of time looking at various private-equity opportunities, both within and outside of the energy space. In an effort to get some exposure to the Williston Basin, we were also

looking at real-estate and service-company opportunities there. We probably looked at a half-dozen service companies that were active in the basin but elected not to follow through on those.

In mid-year 2012, we began to think about starting our E&P business again. Initially, we thought we would do it with just our capital. However, given our desire to build a portfolio of projects, we quickly concluded that we needed to bring in some partners. By the fall, we had started a dialogue with a handful of private-equity firms. Ultimately we talked to about a dozen and decided to partner with Warburg, Pine Brook and Yorktown.

Investor How did you choose these three?

Shepherd Initially, we wanted a single partner. Ultimately, we decided three were better than one because of how capital-intensive these unconventional resource projects are. Prior to forming Brigham Resources, we had had a long-standing relationship with Yorktown. Warburg and Pine Brook were a match because of their appetite for early-stage projects, such as the ones we wanted to build a portfolio around.

Investor Launching with \$650 million these days has come a long way from Bud's \$25,000 start in 1990.

Shepherd In terms of building our portfolio of projects, we wanted to have three to five "bites at the apple." So we talked, simplistically, about \$100 million for each project, initially. However, and as we experienced in the Williston Basin, once you get traction, it doesn't take long for all of your capital budget to be diverted away to a single, high-quality project.

When we were building our initial acreage position in the Williston, we were also attempting to do the same in the Mowry Shale in the Powder River Basin. It looked a whole lot like the Bakken—a very tight reservoir rock sandwiched between two organic-rich shales. We actually had a greater level of early success in the Mowry. One of the difficulties of focusing on early-stage opportunities is when your first well is your best well, which occurred for us in the Mowry. Fortunately, we started to have some success in the Williston. Before long, 100% of our capital was going to the Bakken.

Investor In the Permian Basin, you've started with leasehold in the Delaware, rather than the Midland, Basin.

Shepherd The Midland Basin is probably six to 12 months ahead of the Delaware. We continue to work on opportunities in the Midland Basin, but it's gotten more and more competitive, particularly over the past six months. The Delaware Basin is not as far along and we see the same characteristics we seek— attractive re- source attributes, an early-stage-entry opportunity, an ability to build scale and good geologic continuity across a large area. And the operational challenges there are a good fit with the skill set we developed in the Williston.

Fortunately or unfortunately, the bulk of the high-quality Permian Basin acreage is held by production. Despite this, we've still been able to assemble roughly 50,000 net acres. The bulk of that came from transactions with three companies. Two of them have retained an interest in the acreage that we are now operating. These transactions reflect one of the key elements of our Permian strategy, which has been to reach out to independents with attractive acreage but who don't have a desire to go horizontal.

Investor What do you like in the southern Illi- nois Basin?

Shepherd Geologically, the Illinois Basin has similarities to the Williston Basin: a proven oil province, a cratonic basin with limited structural complexity, ample vertical tests to map geologic horizons and some rock data to analyze. In terms of current activity, it also has some parallels with the Williston Basin. When we entered the Williston, there was very little horizontal activity.

We want to build a portfolio of projects across a targeted risk profile. On the one end of the risk spectrum, we are targeting plays with attractive resource attributes, such as in the southern Delaware Basin, where

there has already been some level of horizontal validation. Obviously, these plays are more expensive to build acreage positions in.

On the other end of the spectrum and slightly riskier, we want to build projects that have strong resource-play attributes where there hasn't been significant horizontal validation. The southern Illinois Basin fits in this category.

Investor When do you plan to spud your first horizontal test?

Shepherd In May 2013, the Illinois General Assembly passed some legislation setting up a framework for permitting high-volume fracture stimulations. But the state is still in the permitting-design process. We can drill a horizontal well, but we can't frack it yet with a high-volume stimulation. We're hoping for a permit by the end of this year.

Investor Back to the Permian, operators are suggesting a dozen or more intervals may produce economically from fraced horizontals in the Midland Basin. How many may be economic in the Delaware Basin?

Shepherd I know seven or more have been tested in the Midland Basin. In the southern Delaware, we're focused on the upper Wolfcamp—the A and the B. There is also the lower Wolfcamp—the C and D. And there is the potential for the Bone Spring as an objective, depending on where you are in the southern Delaware.

Investor What have you taken from Brigham Exploration's success toward building Brigham Resources?

Shepherd Because of our focus on targeting earlier-stage projects, we want to avoid having all our eggs in one basket. We do this by building a portfolio of projects. We also had—and have today—a very flat organization. We're able to make decisions and allocate capital and our other resources quickly.

Ultimately, success will depend on the competency and work ethic of our people. We have a talented team of geologists, landmen and engineers. Everybody has input and is rewarded based on their contributions and the success of our company.

Investor You've built a team and leasehold in a competitive environment in a very short time.

Shepherd It's been a bit over a year since we closed the private-equity transaction. To be fair, we initiated the Illinois Basin project prior to this. However, in the case of the Permian, we've largely built our Permian technical team, assembled our 50,000 net acres, picked up the three rigs that are drilling on our acreage and drilled a half-dozen wells—all in the past 12 months.

Investor Would you go public again?

Shepherd That is one alternative to getting our investors some liquidity. However, we're not a candidate today to go public—we've got a lot of drilling to do over the next 12 months. Beyond the need to raise capital, another source of motivation for us might be some type of strategic opportunity to grow our company that could require us to go public.

We've had discussions with operators who, at present, see a pretty significant arbitrage opportunity between the A&D markets and the IPO markets, particularly in the Midland Basin. Some of these operators don't want to go down the IPO path themselves; however, they could indirectly benefit from those IPO valuations by doing something with us.