

## Private Equity Seeking 'Oily' Projects

By Gregory DL Morris  
Special Correspondent

In a new manifestation of the story of the tortoise and the hare, private equity investors have quietly been growing their involvement in conventional oil development, with some conventional natural gas activity as well. That has often gone unnoticed as the larger, publicly owned independent oil and gas companies have made headlines in conventional shale gas plays.

### Seat At The Table

Private equity investors stress that conventional oil and gas development keeps a seat at the table even with all the other energy sectors vying for attention. GE Energy Financial Services, part of GE Capital, has \$23 billion invested in about 300 individual projects worldwide, and conventional domestic development is very much in the mix, says Jim Burgoyne, managing director of GE Energy Financial Services' natural resources group. "We are invested from the wellhead to the wall socket," says Burgoyne. "That includes oil and gas reserves, thermal and renewable energy, pipelines, and processing." Only about \$7 billion of the \$23 billion in investments is in debt and financing, he notes. The rest is equity.

"We have been involved in oil and gas as an equity partner for more than 15 years," remarks Burgoyne. "Our current portfolio is 26,000 barrels a day of oil equivalent. We are focused on the lower-48 states, with a little shallow-water Gulf of Mexico activity. Our typical profile is a relationship with a private company that has expertise in a certain area or region. We are not into exploration, so we

mostly invest in proved, developed, producing assets, although we do have some proved, developed, nonproducing, and proved undeveloped. We like to see some development upside."

For the most part, Burgoyne says GE invests through limited partnerships, putting up as much as 95 percent of the capital. "Once we reach our target rate of return, the operating partners earn a disproportionate return," Burgoyne explains, noting that most projects have an investment life of three-five years. "At some point, we need to get our money back, but we are opportunistic and have no fixed time frame. Our longest running development is 10 years. In many cases, we make repeat

there is no doubt that developments like the Haynesville and the Eagle Ford are game changers. They are here to stay," he states. "But for investors like us, it is very difficult to delineate value when the players themselves are still figuring it out. What is fair value? What is full value? The shale companies are still playing that very close to the vest."

And as they do, they stoke the market. "Quite a few sellers are motivated to monetize their conventional assets to raise capital for shale," says Burgoyne. "That continues and has been driving a fair amount of transaction activity."

The same trend is taking place in the midstream, he adds. "Shale players are also



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**JIM BURGOYNE**  
Managing Director, Natural Resources  
GE Energy Financial Services

investments with the same partners."

Expanding on the conventional focus for private equity, Burgoyne points out that the market for conventional resources is deeper and much more liquid than is the market for shales, with the notable exception of the Barnett. "The market for assets in that area is very liquid. And

monetizing their gathering and processing assets. They are sorting out where is the best place for them to put their people and their capital," Burgoyne remarks.

GE Energy Financial Services has done quite a bit of business in this area with the Regency master limited partnership that it built over the past three years. GE also



owns Southern Star Central, a natural gas transmission company with a system that spans 6,000 miles in the Midwest and Mid-Continent regions. “We see pipeline opportunities all over,” Burgoyne enthuses. “And there are all sorts of opportunities in the Marcellus; water treatment for frac fluids is one big area of interest.”

The biggest wild card in the game,

Burgoyne contends, is “some kind of energy policy that drives the economy to some market price for carbon.” He says one of GE’s advantages from investing in conventional assets is the ability to put on hedges, and there is no clear picture of how a carbon economy would affect production, consumption and hedging.

Between that uncertainty and an influx

of new natural gas supplies, Burgoyne says it is difficult for him to make a case for investing in unconventional assets, even as a contrarian play. “We have seen some countercyclical moves as many people are investing in oily assets, and we certainly like the infrastructure play in gas, but we are driven by the curve. It is hard to be competitive on gas.” □