The Legend of Ute Energy

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Ute Energy sold its E&P assets consisting of more than 7,000 barrels of daily production and 8,000 identified drilling locations to Canada’s Crescent Point Energy Corp. for $861 million. Simultaneously, the Ute Tribe bought Quantum’s interest in the company’s midstream assets for an undisclosed sum, locking in a long-term revenue stream for the people of the Northern Ute Tribe.

Add to that, the Ute Tribe retains all of its mineral estate on the reservation, and will receive an average 20% royalty on all future production from the sold assets on their lands.

The financial status of the Ute Tribe today is markedly different than a decade ago. Then, the tribe had $1 million of unrestricted cash on hand and some $3 million in annual revenues to support its 3,300 members. Tribal members, who typically rely on the tribal nation for income, made on average a $25-a-month stipend. Education, retirement and health care programs were virtually nonexistent.
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With no expertise or capital, the tribe approached Jurrius, who was by now a familiar face. They asked him to assist the tribe in managing its fiscal estate and to build an energy company from tribal holdings. The result would be a paradigm shift for tribal mindsets nationwide.

Jurrius was hired as financial advisor in 1995, with the mission of developing a model of how a tribal government can also act as a business enterprise, and to show them how to access financing and financial partners. The result was the creation of Red Willow Production Co.

By 2001, when Jurrius left, Red Willow and related midstream holdings had a market value exceeding $1 billion. The Southern Utes became the 13th nation in the world to receive a AAA credit rating. Jurrius, along with other key figures, he emphasizes, changed the destiny of the Southern Utes. “I helped connect the dots,” he says.

Tribes communicate, and the Northern Ute Tribe noticed the financial success of their sister tribes. At a Council Tree meeting of tribes, the leaders conferred, and Jurrius was offered the opportunity to recreate his model with the Northern Utes.

**A new model**

Although they had a huge resource estate of about 1.2 million mineral acres, the Northern Ute Tribe only participated passively as a mineral lessor on some 40,000 acres with royalty interest income. If the tribe was to lease to itself, however, it could leverage that interest and raise capital, notes Jurrius. “In essence, it is a new form of currency.”

That premise was the foundation of a plan, similar to the one he implemented with the southern tribe, to move the tribe from passive participant to active partner.

In the early 2000s, the Uinta Basin was becoming more attractive to producers. As Jurrius leased development rights to third-party operators, in addition to lease bonuses and royalties, he reserved a right for the tribe to participate on a section-by-section basis. “These options became valuable as producers derisked the plays,” he says. Proved undeveloped locations are bankable.
Moves like Jaggers

By spring of 2010, green shoots were growing in the capital markets, and the industry was emerging from hibernation.

Oil prices were recovering and the Ute Uinta position was decidedly oily. During the downturn, Quantum worked diligently to identify and quantify the upside potential on the company’s assets. With the backing of the business committee, Quantum began interviewing management teams to step in and take the company to the next level.

In the summer of 2010, they found Joe Jaggers, a well-respected Rockies oil and gas veteran. A West Point grad with six years in the service, Jaggers spent 19 years with Amoco and BP Plc, then became a fixture as president of Barrett Resources, which was bought by Williams Cos., and at the new Bill Barrett Corp. as president and chief operating officer. “When I heard his story, I knew Joe was the guy that would enable Ute Energy to realize its full potential,” says VanLoh.

Over the next 12 months, Quantum and the tribe injected an additional $160 million into Ute Energy. “The tribe’s willingness to make a meaningful cash investment into Ute Energy showed foresight and commitment by the tribal business committee,” Jaggers notes.

Jaggers and his team took the helm and forged ahead. When he took command, Ute Energy had nonoperated production of about 2,000 barrels a day. “I knew a strictly nonoperated production base was not going to provide an attractive exit strategy for a strategic buyer to come in and buy those assets. We needed to add a significant operated side.”

Jaggers initially added a key EDA in the Randlett area with 100%-operated interest in 17,000 acres on tribal lands, then expanded that to 45,000 net acres beyond the reservation. The company continued to add operated acreage through leasing and acquisition, including a $100-million deal with Newfield Exploration for 30,000 net acres in Horseshoe Bend.

Ute added its first operated rig in mid-2011, and a second toward the end of the year. The company ramped to eight operated vertical wells per month targeting the Green
River and Wasatch formations. Cycle time was seven days spud to release. “Our objective was to grow production as quickly as we could,” says Jaggers.

More capital was needed. At Jaggers’ arrival, the company had a $25-million borrowing base, which he grew to $200 million and then tacked on an $85-million second lien. The company drilled more than 100 operated wells in 18 months.

While the area was clearly prospective for horizontal development, Ute Energy focused entirely on vertical wells. “We felt we could prove it with the verticals, and get production and reserves up without the risk associated with horizontal.” These vertical wells averaged 105 barrels of oil equivalent (BOE) per day initial production, and 129,000 BOE estimated ultimate recovery. Well costs were $1.5 million. “It was a very low-cost and high-return operation. We emphasized fast cycle times and efficient drilling operations.”

“Once Joe and his team came in, we grew our operated production from zero to 5,000 barrels a day in a year and a half,” VanLoh says.

The position ultimately grew to 173,000 total net acres (94% undeveloped) and more than 7,000 barrels of daily equivalent production. Proved reserves reached 49 million BOE. Total resource potential is estimated at 500 million BOE. Upside potential includes the Mahogany bench, Uteland Butte and Castle Peak zones.

“The Uinta Basin is multistacked pay,” adds Van Loh. “There’s so much that can be done out there.”

**Catching a dream**

After having been in the investment five years, and with growing success in an oily basin, the tribe and Quantum sought an opportunity to exit. In January 2012, Ute Energy contemplated going public on the New York Stock Exchange and filed an S-1 registration statement.

However, the capital markets turned south in May, which led the company to reevaluate its strategic options. The tribe and Quantum ultimately agreed to a private sale of the upstream assets instead of an IPO. A cash sale of the upstream assets provided the tribe the capital to buy Quantum’s share of the midstream assets and
secure a source of long-term, low-risk cash flow for the tribe.

“An outright sale was a better deal for the tribe as they got cash instead of an illiquid stock,” VanLoh says of the decision. “And, they could use a portion of the cash to purchase Quantum’s minority stake in the midstream assets, thereby fulfilling the tribe’s dream of having a 100%-owned tribal energy company.”

Jaggers credits the tribe with its courage to change paths. “The Tribal Business Committee should be commended for the vision they had in keeping with the mission of Ute Energy to build both short-term and long-term value for the tribal members.”

As a result of this vision and partnership, the future of the Northern Ute Tribe is secure. In contrast to its bleak financial situation 10 years ago, the tribe now has annual revenues exceeding $100 million. It is now able to build its own schools, resulting in dropout rates below 10%, provide health care and retirement, scholarships, and an income surpassing $2,000 a month to its members as a result of leveraging its resources.

Says Jurrius, “The motivation was economic when I started, but today I would tell you it’s as much about helping tribal nations. I can show them a business model whereby they lever a greater participation in the resources of their own lands, and create a better economic outcome for them.”