

# Q and A



Robert J. Clark is founder, chairman and chief executive of 3Bear Energy LLC.

By Paul Hart, Editor

*As the saying goes, this ain't Bob Clark's first rodeo. He has been in the energy business more than 40 years and instrumental in the creation, operation and profitable sale of three midstream operators—Bear Paw Energy, Bear Cub Energy and Bear Tracker Energy. Picking a name for the privately held, Denver-based midstream venture he started in 2013 wasn't hard: 3Bear Energy LLC. Financial backing comes from one of Clark's long-time partners, GSO Capital Partners LP, a credit-focused, alternative-asset division of Blackstone Group as well as Wells Fargo & Co. The firm focuses on opportunities in the emerging western U.S. shale plays.*

# BEAR HUNTING, AGAIN

**MIDSTREAM** *What attracted you to the energy business?*

**CLARK** Upon graduating from Bradley University in Peoria, Illinois, I joined Northern Illinois Gas (NI-Gas), a large distribution utility serving the northern third of Illinois.

After 13 years with NI-Gas, I transferred to Denver with a wholly owned subsidiary, Nicor Exploration. Their strategy was to partner/invest with successful exploration and production companies. The company always held non-operated positions with these successful operators. In earlier years, the company focused on augmenting its long-term gas supply, but in later years the focus shifted to investments seeking better returns on invested capital. In the later years the size of the investments increased, but always in a non-operating capacity. The strategy remained: invest with the successful oil and gas finders.

I got directly involved in gas gathering, processing and treating in the early '80s when Nicor Exploration formed Reliance Pipeline. After over 19 years with NI-Gas, Nicor Exploration and Reliance pipeline, I joined

Ladd Petroleum (a subsidiary of General Electric) in 1985, and subsequently, Snyder Oil Corp. in 1988. In both companies I was responsible for natural gas gathering, processing and marketing. In 1995, I started my first bear company, Bear Paw Energy.

**MIDSTREAM** *3Bear Energy is less than a year old. Have you achieved what you wanted to accomplish at this point?*

**CLARK** Probably not. Startups require knocking on a lot of doors, talking to a lot of producers and seeking opportunities that allow you to do what you do best—and that is to gather crude oil, natural gas or water. Ideally, if the crude oil, the natural gas and the water lines can be combined in the same ditch, it can be a win-win for both the gatherer and the producer. It can be much more efficient operationally and economically.

**MIDSTREAM** *What's different about 3Bear?*

**CLARK** Primarily, I would say we're focused on crude oil gathering and treating and water gathering. Current gas prices and the near-term pricing outlook do not really offer producers an incentive to exploit new gas plays.

Also, I think the business is changing because the volume of trucks in basins where there's been great success has increased immensely. For example, in the Bakken or Eagle Ford, the states and counties just can't keep up with road maintenance these days. So there's increased regulatory pressure to put pipe in the ground to gather crude oil and water. Eliminating industry traffic on the roads also improves the safety of the residents.

Historically crude was always trucked. But 15 years ago you didn't have the Bakken or the Eagle Ford plays, where you're producing a large amount of shale oil. It is just a different environment.

Our business has become more competitive. I think you're always looking for ways—trying to find ways—that make you stand out. I've always felt that the only way this business works is you've got to be a partner with the producer. Going out and drilling a hole in the ground trying to find crude oil or natural gas is a completely different risk profile than putting pipe in the ground. It's just a different game. You need to understand that your risks are a lot different. And secondly, you need to partner with the producer to make sure that you can meet their expectations.

**MIDSTREAM** *Is the capital there? Who wants to invest in the midstream now?*

**CLARK** I really think in today's world capital is available in abundance for the midstream sector. I think it's a lot easier to find money than it is to find deals.

**MIDSTREAM** *The rapidly growing Niobrara has gained a lot of attention. What are the other up-and-coming plays in the Rockies that the midstream should watch right now?*

**CLARK** The Powder River is developing nicely as there are a number of wells being drilled. I think the extent of the Niobrara is still being defined. One of the realities in the Rockies is because of the geologic age of the rock, there's a lot more oil and gas there to be exploited and discovered. At current gas prices, it is economically challenging to drill gas wells. Many producers have expanded their drilling options by leasing lands with oil or liquid-rich gas options.

I do not see anything encouraging that indicates natural gas prices will have a sustained increase. The recent strength in gas prices has been a result of the extremely cold weather in the upper Midwest and the Northeast. I do not believe there will be a sustained spike in the future price strip. Producers recognize the tremendous volume potential that is possible by drilling horizontal shale-gas wells. So even though you may have a periodic spike in prices, I think it's going to take more demand to cause futures prices to increase accordingly.

Something that's changed in my working career in the natural gas business is hedging. Historically, interstate pipelines were responsible for the gas supply of its customers. The economics of storage were fairly simple. You would buy gas in the summer when gas prices were lower to refill the storage fields, and then withdraw and sell the stored gas in the winter when gas prices were higher. So you'd inject in the summer and withdraw in the winter. That is still the injection/withdrawal pattern of natural gas storage, but hedging has changed the pricing parameters.

**MIDSTREAM** *Is there still a market for Rockies production as other big plays, such as the Bakken and the Marcellus to develop?*

**CLARK** There is definitely a market for Rockies production. The DJ (Denver-Julesburg) basin has produced oil since the early 1900s, and production has jumped significantly with the advancement of horizontal drilling. The DJ well results continue to improve and the profitability of the wells compare very favorably to other basins. In fact, one producer alone has 4,000 future drilling locations in the Wattenberg and plans to drill 300-plus wells a year. And that's just one producer.

While the Niobrara may not appear as often in the headlines as the prolific Bakken, Marcellus

and Eagle Ford, it is still a highly economic play with years of growth ahead. Many parts of the Niobrara are still a bit of a science project with producers working to crack the code. I anticipate overall production to increase as producers refine their drilling techniques and identify more future drilling sites in the oil and liquids-rich plays in the Niobrara and Powder River.

**MIDSTREAM** *The Bakken was a central operating area for your earlier operations. What's ahead as the Bakken develops into a world-class play?*

**CLARK** For a limited period, I am somewhat constrained in the Bakken because of a non-compete in certain counties in North Dakota. But I believe the Bakken will continue to offer opportunities. Producers are beginning to develop additional benches of the Three Forks while also downspacing on their current drilling units. Increased drilling potential, combined with pad drilling, provides significant opportunity for producers and midstream companies alike. I'm excited to watch the Bakken continue to develop.

**MIDSTREAM** *You've had considerable success as an entrepreneur in building and then selling profitable midstream operations. What advice would you give someone interested in starting a midstream business from scratch?*

**CLARK** The first requirement is to have the right team of people. The team is what makes it happen.

Second, you have to partner with the producer. You have to design and implement your systems with the producer's needs in mind, with clear communication every step of the way. Last, remember you are in this business because of the producer: They are your customer. They need to be treated with respect.

**MIDSTREAM** *What are the big midstream trends to watch? Where will the business be in five years?*

**CLARK** The new shale plays continue to provide significant midstream opportunities, with some analysts estimating future investment in infrastructure to be over \$100 billion. Producers will continue to develop new plays, and midstream will need to follow to help make the plays more economic and environmentally friendly.

**Paul Hart** can be reached at [pdhart@hartenergy.com](mailto:pdhart@hartenergy.com) or 713-260-6427.