Lone Star State of Mind: Rockcliff Energy III Sets Sights on Texas Shale Assets

Deon Daugherty - Wed, 03/05/2025 - 05:30 PM

Rockcliff Energy III Executive Chairman Alan Smith and CEO Sheldon Burleson have their Quantum Capital-backed company's Texas-sized ambition focused on the western Haynesville and the Eagle Ford. They are confident of the natural gas outlook in Texas plays. *(Source: Shutterstock)*

Rockcliff Energy III brings together Alan Smith, a long-time leader in the industry and former CEO of Rockcliff I and II, with former Chesapeake Energy executive Sheldon Burleson. The pair are leading the newly formed E&P with private equity firm Quantum Capital Group, and have their eyes on Texas assets in the Haynesville and Eagle Ford shales. They talked with Deon Daugherty, Oil and Gas Investor editor-in-chief, about their plans, what they bring to the table and how the emerging political environment under President Donald Trump may impact their company and the industry.

Deon Daugherty: Let's begin with how Rockcliff III came together. Sheldon, you were with Chesapeake for several years. What made this opportunity interesting to you?

Sheldon Burleson: I think there were a couple things. [Alan and I] had worked together in the past on some different boards, and so I've known Alan for a long time, seeing his track record and him being a good mentor and person I could bounce things off through some of those roles.

At Chesapeake, I spent almost 10 years there, running a lot of different business units. But during the last few years I was there, it was really focused on Haynesville and the Eagle Ford. During the tenure in Haynesville, we'd made some acquisitions, our merger with Vine Energy in 2021 and were continuing to look at other operators in the basin. I really saw what Rockcliff was doing and had a lot of interaction with Alan on their development on the Texas side of the basin.

Not only did I know Alan personally, but I also was impressed with what he'd built at Rockcliff, the capability of the team and what they'd done with that asset, taking that position and really growing it into a scaled business. And then, as he said, all those other facets of building a midstream and mineral business. That piqued my interest.

I always had a bit of entrepreneurial bent, even though I'd worked in some large companies. As we divested our Eagle Ford assets, that opened up the opportunity to decide what I wanted to do next. I looked at a few other public opportunities, but the private equity route is the way I'd like to go.

The timing worked out where I started moving down that path and then had some prior interaction with Quantum and had kept in touch with Alan. I felt like this is a great opportunity to come in and work with a successful team and also bring in the background that I had as well in Haynesville and other multiple basins to go look at what's next.

DD: And Alan, what made you interested in changing your role from being the "roll-up-your-sleeves" CEO type to an executive chairman and being more strategic?

Alan Smith: We're always reinventing ourselves a bit and, well, I think it's great to build another business. I've been partnered with Wil VanLoh for a long time at Quantum, and we decided it made a lot of sense for me to move to being executive chairman at Rockcliff and come back to Quantum as a partner—they're a much larger private equity firm now—allowing me to move from, for lack of a better term, being the leader of a business to more of a sage and getting the opportunity to hopefully pour into some other leaders like Sheldon and working closely with some very talented partners over here at Quantum and in the portfolio companies. I think just having done this now for 20 years on the entrepreneurial side of building companies [and] 30 years in leadership, to just be able to be in a position to utilize the gifts and talents that I've been blessed with. It was just an opportunity to go into more strategic roles and be able to help and mentor other entrepreneurs as they build and run exciting businesses.

DD: That makes a lot of sense. It's growth, it's evolution of your career. So, gentlemen, is it your intent to continue working in the Haynesville? Or, where do you want to deploy your resources? You both have worked in different areas of the business, but Rockcliff I and II were drilling and development focused. What direction do y'all want to take the company?

Alan Smith, executive chairman, Rockcliff Energy III

AS: Well, I'll maybe hit it high level and then let Sheldon comment on some of the specifics since he's right in the middle of it. When we were starting Rockcliff [III] last summer, the gas macro was a little more bleak than we would've liked. You had low gas prices, a lot of things that you would [question whether] you want to stand up a rig pretty quickly in the Haynesville, and we just didn't think that was a great idea right out of the gate. Sheldon has quite a bit of Eagle Ford experience. A mantra we've had literally since we started doing this back in '03 is, we tend to feel like our expertise is Texas and what touches Texas.

So, I think that the Eagle Ford and the Haynesville would still be at the top of our list. The Eagle Ford has multiple fluid windows, which was attractive, and we got off to a pretty good start there. But that basin is also relatively competitive. And then we got into the back half of '24, and as you know, the gas prices began to firm up. Being in the business, we just had a lot of insight into what's coming in LNG. It was delayed and now you're going to get that first 6 Bcf/d wave coming, which I think [drives] a stronger and more stable gas price.

But now we have also the AI movement and the data center movement that is also going to create more demand. All of a sudden, gas has firmed up pretty dramatically. We've begun to explore the Haynesville. That's not to say we would never go outside of Texas, but it would take a very special situation.

SB: That's spot on, as we really looked early on at focusing on, what's the core capabilities of the team? That naturally led to the Eagle Ford and Haynesville because the team has a lot of background there, and in the past, we had done additional work up in the Delaware Basin, as well. The team looked at those three areas and did some refresh of our technical views. We really continued to drill into opportunities and think about where there's opportunity to get something that's scaled, with more consolidation opportunities, so we've focused a bit more on the Haynesville and East Texas areas again recently. We think there's a lot of opportunity there. I think, on both commodities, oil and gas, there's been underinvestment by the industry with just the focus on free cash flow and the capital discipline expectations.

I think there's opportunities in both commodities, but we feel like the tailwinds and the structural look ahead for gas is strong. I think there's a number of places where there's some sizable positions still available. There's also still areas, especially in East Texas, that are just less developed than what you see on even some of the Louisiana core side in the Haynesville. I think there's opportunity to go and acquire an asset and/or go and build up a position and go deploy capital.

As Alan said, we have looked at some broader opportunities, and I think with a number of the team that's worked in different areas, and then my background working six or seven different basins throughout the U.S. in the past, we have the operating capability and then the technical know-how from reservoir and geoscience to go and really evaluate assets.

We have looked at some things that are both outside of Texas and inside Texas, and that's still something we'll work on, but it would need to be a scaled asset and something that we can really go and take our expertise and apply it.

So, there are those opportunities that may look a little different than Rockcliff was in the past, just because we think there's a market there for some large-scaled assets even beyond that of Texas and in the Haynesville area.

DD: Tell us some more about that. Have you bought assets yet or are you still looking?

SB: We're still looking and still working on core assets. Our goal is to capture the right assets. We look at a lot of different opportunities [because] you really want to make sure that it fits the criteria that you need so that when you make that acquisition, you can go add value to it.

You want to have some locations you can go develop into something that is either attractive today or will be attractive in that three- to five-year timeframe. What's a little different today than in the past is, you're probably looking at a little bit longer window for private equity deployment. We want to find something that … is either very attractive today or we can go apply our skillset and it'll be what's next. It's an asset that's up next in the dispatch curve for the companies. If we look ahead three to five years, what will be the inventory that will be very attractive for us to consume, develop or for others that want to continue to look for opportunities to grow?

And, I think, the last piece that we look for is multiple ways to win. Our goal as a private operator, and I think also our strength, is having that small nimble team that's got deep experience, where we can add value through operational improvement, D&C (drilled and completed) improvements or really look at providing a low-cost structure to go develop assets.

Those are the main components that go into capturing the right asset.

DD: How will Rockcliff III be different from its predecessors?

AS: Well, I would say it won't intentionally be different, but I think that a lot of it'll depend on the complexion of the asset that we can actually secure [and] that we feel like that we can ultimately create a lot of value with.

What Rockcliff did previously was … it had some underlying PDP (proved developed producing) production, but it also had a significant undeveloped component. I would say that is the mandate for where we're looking for, but sometimes there's something that has more development that we think that we can manage that well, but also have more undeveloped upside that we can hopefully bring to fruition.

I think another thing that we've done well historically that we will also pay a lot of attention to and lean into is actually the marketing of the hydrocarbons that we ultimately get access to. I think that the natural gas markets are complex and that can be an issue or that can be a competitive advantage, and we're always looking for competitive advantages. The subsurface team's capabilities—we drilled over 300 wells, we spent $3.5 billion of capex in Rockcliff II—we want to take a lot of that tuition that we've paid historically and try to turn that into competitive advantages.

SB: I think the market is a little different today than what it was maybe five or seven years ago when Rockcliff II was formed and operating.

There'll be opportunities that have a lot more existing production. There was a time in the early days of the shale revolution that it was more likely to find some land and then you can quickly turn those over. And it may have been smaller pieces or very short exits. Now that the basins are more developed, I think it's going to be a combination of something that has a lot more existing production and still has that runway to develop for the future.

That's one of the areas I think the Rockcliff team has a capability [to do well]. That's something from my past, working large assets with lots of wells, and a key part of that was doing production optimization, workovers, even looking at other opportunities for refracs, et cetera. Those are all things that I think can add a lot of value as well.

AS: One of the things we've always said is, you have to begin with the end in mind. We're inventory builders. We're going to take something that's maybe not quite as valuable in somebody else's portfolio—thus, it's on the market and available—and really put an intense amount of focus and execution on it … knowing that whatever we build, it needs to be interesting to someone else five years from now. We have to put all that into our calculator, so to speak, as we're searching out the opportunity.

But generally speaking, the market will ultimately dictate what we can actually wrestle to the ground. And the good news is, this team has done both the exploitation and the significant development strategies. We've just got to be patient and find the right opportunity.

DD: With all of the consolidation that happened in the upstream space during the last couple of years, it seems like there should be a lot of opportunities for A&D. Is that what you're finding, that there's a lot more to choose from now?

SB: I think with all that consolidation, the thought process is that, as these companies consolidate and build big positions, there'll be things that are further out in their inventory plans, further out in their skyline charts, and so they just may not get to it for a while.

I do think that will create opportunities, and you're starting to see some of that now. It probably took a little bit longer for some of that flywheel to get going—that maybe took a quarter or two longer than what a lot of people thought. We're starting to see that momentum build now and you're seeing deals start to transact that are coming out of the larger companies or that are product of these consolidations. It's happening at a little bit faster pace the last month or two, and we're seeing that's starting to ramp up this year.

I think the other component of it is, with some of the changes in policies, and you think about some of the changes within the political arena, people have confidence that deals will likely go through. There's more positive sentiment around getting LNG capacity approved.

If there's a runway where it looks like the big LNG projects are getting approved and there's more certainty in those investments, then that creates opportunity for us as we like to go buy assets and start to develop the supply, especially on the gas side.

AS: One of the things we've noticed that is a bit unique with where we've been recently, compared to where we've been historically, is the amount of leverage that all the public companies have is significantly lower than it has been historically, where a lot of these larger companies, even after a merger … didn't necessarily have a lot of debt.

You're seeing 1x EBITDA to -1x EBITDA, even after a merger in some of these situations. And while, as Sheldon described, there will be some asset rationalization, I don't think there's going to be as much as you once thought. And I think companies are beginning to understand that inventory is valuable. It's going to cause us to be a little bit more creative also because there's going to be some things they're going to hold onto in their portfolio.

We have to not only look for acquisitions, but I think we also have to be thoughtful about different structures like joint ventures and farm-outs and things like that.

DD: Do you have a preference for oil or gas or are you resource agnostic?

AS: I think, in a perfect world, having some exposure to both would be optimal. We talk a lot about the margins around oil versus the margins around gas, which is why, generally speaking on a production basis, oil is more valuable currently just because the margins are generally higher, but that causes natural gas assets to price accordingly.

I'd say generally we're agnostic. Our job is to make a great return for our team and our investors. That's really what drives hat we do. But I think it's fair to say also that—and you can't ever predict that this will continue to be a constant—natural gas has just had more volatility. That's why we've always been big hedgers. When we make a significant acquisition, we hedge out the production several years and then we'll even hedge out of the gate into the drilling program to some extent. That's how we manage that volatility. But it's not lost on us that the natural gas strategy does create some risk while, at the same time, it creates some opportunity.

DD: What might be the impacts of the Trump administration on the energy industry with policy changes, such as permitting and tariffs?

AS: I might take the federal side and then let Sheldon—he is the new chairman of the board of the Texas Oil and Gas Association—share his views on Texas. From a federal perspective, things are changing rapidly. The LNG [pause] was lifted almost immediately. I think that the carbon tax, that was on its way to being fully implemented, will be repealed or certainly pulled back. I think access will be a focus of the Trump administration. And so, from a federal perspective, with the two gentlemen that are running Interior and the Department of Energy, I think that is going to be a more positive environment for traditional energy and a good environment for all the additions that we need to make the world and the economy run properly.

The places we're looking, generally speaking, don't require a lot of [input from the U.S. Bureau of Land Management] to make it work. We always want to be great stewards of the assets that we buy and that we operate, and so ESG is part of our culture. We created a lot of value at Rockcliff II around biofuel fleets and piping our salt water and managing all our emissions reporting, including trust well certifications. I don't think any of that's going to change just because the administration changed, but a lot of this still resides with the states.

SB: As Alan said, the states are a key part of it. I think one of the reasons you've seen such strength in the U.S. energy industry is because Texas, the southern states and [other states] have been friendly to energy development.

As you get more support on the ability to go and capture carbon and then be able to have the wells and the infrastructure to go do that, I think that's a great opportunity for the industry and the industry has the technical expertise.

[There is] a lot of talk about tariffs and what impact that could have. One that's recently come out is around steel tariffs. There are some potential impacts there on our business, but when you think about how much of a well cost is tubular goods steel, generally 5-7% is a typical percentage for that for those wells.

Even if there is a tariff that increases the price of steel, it may have a 1% or 2% impact on the total well cost. It's a bit of a cost, but I think it's something that can be factored in and we can plan for.

I think the other part of that is just ensuring that you've got the supply chain that doesn't cause disruptions there. We plan out our business, and the industry does a good job of planning ahead so you can manage the supply chain. I think the overall impact from having a more friendly environment and more certainty around the permitting and overall development is a net-positive with what we're seeing with the administration's look at energy.

AS: The only other thing I would say is the president is often quoted as saying, "drill, baby, drill." I think the discipline that you've seen in the upstream space is not changing anytime soon. That has been a big focus back to return on capital employed, free cash flow generation, share buybacks, returning cash through dividends and yield to investors. That's what [E&Ps] are being rewarded for. So, I just don't think that is going to change.

While they have lots of different reasons for why you might put a tariff on Mexico, it might be different than why you put a tariff on Canada. But some of those—depending on how those who are being "taxed," for lack of a better word—respond, that could result in a supply hit that could ultimately have the opposite effect of [what] I think Trump would really like, [which is] to see energy prices go down. You could have the opposite effect with these tariffs.

One of the biggest expenses on an oil and gas well is tubular [steel]. If those tariffs are coming on and then your steel automatically increases their price book, that means that our cost structure can go up as a result of that, which means that we need higher prices to make our returns.

I think it's going to take a better part of this year for all that to sort of settle out because it's been fast and furious out of the gate, which in a lot of ways we're really pleased to see.... Anytime you have uncertainty, that can cause people to take a bit of a pause until they feel like they have more certainty around how their investment is going to be treated and what the ramifications to their investment are. So, while there's a lot of positive developments going on, I wouldn't expect to see the capital being spent here in the U.S. to go up dramatically.