Chapter 20

Funding Oil and Gas Ventures

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—Lee T. Billingsley

INTRODUCTION

This chapter is addressed to geologists who must raise external funds for prospect acquisition, exploratory and development drilling, or to a limited extent, production acquisition. In the ranks of independent geologists, external funding is what separates a dreamer with a good idea from a successful oil and gas producer who gets ideas evaluated on a regular basis. The quantity of external funding usually dictates the level of drilling activity for independent geologists and small companies. Companies or individuals with high levels of internal cash flow set budgets to determine their drilling activity. However, most independents set goals for sales of prospects to determine their activity level. With the exception of the 1979-1981 time period, the quantity of external funds has been the limiting factor in activity level, not prospect ideas. Thus, raising external funding can be the most important step for a successful petroleum geologist.

The purpose of this chapter is to provide an independent geologist with an overview of raising external funding. The scope is purposely general. The real motivation behind this chapter is not to provide a cookbook for selling prospects. Instead, I hope to stimulate geologists to become students of salesmanship and thereby increase the effectiveness of their fund raising.

This chapter is organized into three parts. The first part describes funding types based on use of funds and various common deal structures associated with each type. The second part divides sources of funds by types of buyers and discusses attributes and drawbacks of selling to each type of buyer. The third part provides a general philosophy of salesmanship with some specific recommendations for petroleum ventures.

Before beginning, definitions and assumptions are necessary. The entity or person raising external funds will be referred to as the “Seller” and the funding source as the “Buyer.” Also, two basic important assumptions are universally applicable to all ethical sales efforts. They can be adapted to petroleum ventures, as follows:

1. The Seller is raising funds for a project with sound technical merit that would provide the Buyer with an appropriate economic return, if successful.
2. The Seller has integrity.

TYPES OF FUNDING

Funding can be divided by its use into four types, which are (1) prospect acquisition, (2) exploratory drilling, (3) development drilling, and (4) production acquisition. Traditionally, petroleum geologists have raised funds of the first two, exploratory types. However, as more fields mature and larger companies divest properties, geologists will have an even greater opportunity in the near future to generate ideas, help evaluate, and raise funds for development drilling and production acquisition.

Prospect Acquisition

Prospect acquisition funding is the capital required to bridge the gap between a prospect concept and a prospect ready for drilling investment. Prospect