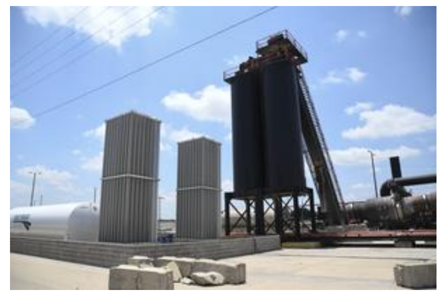
DALLAS
BUSINESS JOURNAL

Cover Story

Dallas company fueling America's infrastructure through innovation

Dec 19, 2019, 2:59pm CST **Updated: Dec 19, 2019, 3:06pm CST**

North Texas is home to a number of notable energy companies, from giants such as Exxon, Energy Transfer and Pioneer to midstreams and more. Beyond that, there are a number of fast-growing energy companies – a mix of traditional and service-focused – backed by deep-pocketed private equity firms and family offices that also sit in Dallas.



JAKE DEAN

A Blue Roads LNG fuel tank and vaporization system sits at an asphalt plant in southern Dallas, the site of the company's first installation.

One of those companies, Dallas-based Blue Roads Solutions, is taking an inventive route in an industry you might not normally see (or think about): road construction.

Originally sponsored by the late T. Boone Pickens, Dallas-based BP Energy Partners is the middle market private equity firm that boasts Blue Roads as part of its portfolio, which also includes Canadian and U.S. firms, such as Mesa Natural Gas Solutions, a sister company that partners with Blue Roads on remote power projects.

The *Dallas Business Journal* sat down with executives for Blue Roads Solutions, a provider of liquefied natural gas fueling systems to companies that serve the construction, mining and power generation industries, to discuss their turnkey system, rapid growth and what lies ahead. Blue Roads focuses on delivering LNG as an environmentally friendly option for asphalt and aggregate providers, along with other companies, but also as a cost-effective answer to bottom line and efficiency concerns.

This is a unique business serving a huge need in our country right now in terms of infrastructure. As entrepreneurs, both of you saw a niche opportunity that needed to be addressed. How did the idea for Blue Roads Solutions come about?

Cole Robertson: Walker and I met for breakfast at Flying Fish in Preston Center in the fall of 2014. Walker and his partners had developed a strategy to use natural gas in the aggregate space in the asphalt industry. They were looking for ways to utilize a cheap resource — natural gas – to cleanly power asphalt plants and, at the time, the vehicles and trucking fleets hauling asphalt and aggregates.

They had a contract with Austin Industries here in town with their South Dallas plant. We heard their story and believed in the value proposition that they were delivering: a way to run a more efficient plant with a cleaner burning fuel. It aligned with who we are at BP Energy Partners and what we try and invest in: businesses that are going to bring value, lower costs and provide a long runway of growth over the term.

We struck a deal between Walker and his founding partners and installed the first plant equipment in 2015.

There's been great growth over the last four years.

Walker Steward: The origination of the business came about through experience that some of the founding partners of Blue Roads have in the road construction industry — in the asphalt production space specifically. Where there is an opportunity for delivered fuel as an option, natural gas is the preferred choice at asphalt plants. Historically, natural gas was not able to be delivered, and we identified an opportunity where one did not exist to deliver it.

COLE ROBERTSON

Managing Director, BP Energy Partners

Education: M.S. and B.B.A., Texas A&M Univ.

Role: Responsible for transaction sourcing, due diligence, deal structuring, execution and portfolio company oversight

WALKER STEWARD

SVP and Co-Founder, Blue Roads Solutions

Education: B.A., Univ. of Texas at Austin

Role: Oversees sales, new market development, contract negotiations operations and risk management

JUSTIN CORDON

COO, Blue Roads Solutions

Education: B.B.A., Univ. of Notre Dame

Role: Oversees day-to-day operations, including finance, asset management, human capital and transaction structuring

You were supported personally and backed financially by an icon, T. Boone Pickens, early in your career. Understandably, you believed in your business plan, but what did it mean to you personally to have the validation of being backed by BP Energy Partners?

Steward: Mr. Pickens and his vision for domestically produced energy and the security it provides is something that we believe in. We loved that a group of guys who had worked for Mr. Pickens for a number of years had started BP Energy Partners with his support. The story of Boone supporting our efforts is a great talking piece with everybody. Everyone knows Boone's name and everybody understands the value that he attributed to domestically produced energy. It's a natural conversation starter, and when folks found out that he was involved with what we were doing, they were more inclined to take a meeting.

What were some of the early concerns you had about starting the business or introducing a new concept into the sector? Were there any barriers you hadn't considered before diving in?

Robertson: From our perspective, it's just supply. Being able to source liquefied natural gas efficiently and cost-effectively is important. Additionally, helping customers understand that a delivered LNG fuel is very similar to their pipeline natural gas that they use in other facilities was critical: You're not delivering a new fuel, you're delivering the fuel a different way. There's just an adoption process and an adjustment period because it's not how they've done it for the last 30 years.

Knowing how many asphalt plants still use other dirty or less consistent fuels, there's clearly a market for this product.

No one ever wants to be the first adopter, so getting customers comfortable with the product was important. Now it's easier, because we can point to multiple installations and say to a potential client, "We're doing this on a daily basis. We're delivering a lot of fuel — and it works."

Are you noticing that your growth rate is starting to speed up in terms of customers wanting to adopt this new approach because you already have so many examples at plants around the country?

Steward: We're definitely seeing that. We have customers from Washington down to Florida, so we can showcase a wide geographic reach to potential clients, but also some big-name customers. From the beginning, our goal was to target the leaders in each specific region. Then the smaller operations will inevitably follow the leaders. We're going after the nation's largest road builders and producers of aggregates and asphalt to convince them to convert their operations to LNG.

As early adopters of wraparound service, you don't have a competitor in this space right out of the gate. How hard is it to stay innovative and anticipate issues in the industry when you're leading the way?

Justin Cordon: The biggest thing for Blue Roads is that the asphalt industry, in particular, is an old-school, trusting partnership-type of business. There are other people who can go out and try to provide LNG to asphalt plants, but we prove over the course of a contract that we can be a true partner with our customers. There are several different ways that we add value to their business beyond just providing LNG.

For example, what does that look like for other delivered fuels at your plant if you aren't using LNG? Well, someone at the plant has to monitor how much fuel he has and determine how much he has left, when he needs to pick up the phone and have it delivered. Then he has to meet a delivery guy, monitor and offload the fuel, making sure it's the right type or mix. In a lot of cases, especially with waste oil as an option as fuel, there is testing and priming and all these other kind of touchpoints for the employees.

Blue Roads handles all of that – with a cleaner fuel option. Communicate with us how you're going to run the plant and we'll set up a system that removes the guesswork. We monitor 100 percent of your system, handle all of the ordering, fuel deliveries and offloads. Because we're constantly paying attention to performance analytics, we can tell a lot based on how fuel is flowing in and out of our system, namely how the plant is performing overall.

We provide analytics and information to plant operators. If we see any abnormalities, we pick up the phone and help them troubleshoot the issue. We want the plants to run very efficiently because that's what we sell to people as well with our service.

Steward: There are a lot that traditional fuel suppliers don't do nearly as well as us. For example, we help customers with everything, from permitting, design and even someone who can help tune their burners for a more efficient operation. We're working with them not only throughout the operating phase, which is important, but before that as well.

What does that process look like in the first few months when someone signs on?

Steward: After a contract is executed, we'll start the permitting processes and the design and engineering of our system for their plant. In addition to the design of the LNG system, we also provide engineered foundation drawings for the customers. We have engineers on staff that do that to expedite the speed with which we're able to deploy our system.

From contract execution to installation, we can be installed within two to four weeks, which is pretty quick. We've done it faster than that, but it's not a long process. One thing that allows us to do that is we're constantly keeping tabs on our equipment beforehand, mostly because it's a specialized equipment that can take awhile to manufacture. We try to have equipment ready to be deployed.

We'll try to make it as easy as possible, including recommending contractors to handle concrete, welders to take care of piping and that sort of thing.

Cordon: We try to be extraordinarily easy to do business with, because this is not necessarily an easy thing for people to change … the fuel that powers their entire business.

BP ENERGY PARTNERS

Dallas-based BP Energy Partners is a middle market private equity firm focused on the energy industry with a variety of companies in its portfolio, including Blue Roads Solutions. Initially sponsored by T. Boone Pickens, the firm was founded in 2013 by Alex Szewczyk and Michael Watzky, who manage the investments of the firm and its affiliates.

ALEX SZEWCZYK
Managing Partner
Education: B.A., Hartwick College; M.B.A., Southern Methodist Univ.

MICHAEL WATZKY
Managing Partner
Education: B.S., State University of New York-Albany

For companies that are burning waste oil, is the biggest factor in considering a switch the efficiency offered by burning LNG instead? From fouling of equipment to downtime and employee safety, there are obvious advantages to switching. Are there financial savings that might not be as apparent?

Cordon: When potential customers are burning waste oil, we walk them through what that looks like on a daily basis: They have to monitor the inventory of fuel themselves, which we do electronically with telemetry and gauges. When they do it with a dipstick, it's certainly less scientific. They also have to make sure that the waste oil is usable and doesn't have a lot of water in it, because that'll shut you down for hours – or even a day – if you try to burn that.

Then they have to prime it and make sure that it is preheated, so it comes up to an appropriate temperature so it has the right viscosity so it will actually flow to the burner. Then they have to make sure the filters are right. If not, there's trouble, and the plant is going offline, which costs money.

Steward: Another crazy aspect is even then, a lot of plants have to mix that waste oil with diesel to get it to burn. And how many people out of the 50 or so we've talked to have actually known how much diesel they're mixing with their waste oil to do that?

Cordon: Not a single one. And the reason is because all of these places will have a big diesel tank on site. That's what they're using to fuel their equipment that's running around the yard. So no one thinks about the inventory loss associated with grabbing five gallons of that here or there. Nobody tracks that.

Most of the issues with waste oil happen at startup when the plant is cold and when the fuel isn't heated, so they're trying to get the plant to temperature in order to do that before they introduce waste oil.

But diesel is significantly more expensive: It's a perceived paper savings using the waste oil price, but if you add in all this added diesel in there, the cost skyrockets. They're not paying what they think for the fuel because they're just thinking about how much they are paying per gallon for waste oil.

-260°

During liquefaction, LNG is derived by cooling gas to 260 degrees below zero.

600

The liquefaction process condenses gas volume 600 times, providing for easier transportation to areas where natural gas pipelines do not exist.

When you think about all the time, effort, energy and labor that goes into that versus an LNG system, we can make our point fairly easy with potential customers because it's turnkey. We have fuel in the tanks, everything is hooked up properly and safe. There's pressure to the burner whenever the plant needs it. With our system, you show up and the plant operator goes into the control house and presses a button.

Steward: A single day of downtime can cost a customer — very conservatively — $50,000 a day up to more than $100,000 a day, all depending on how much time they have to produce on a per day basis.

Robertson: There's also the environmental impact, especially with their bag houses, for plants that use waste oil. On the back end, there's a system used to capture environmental particles that would otherwise be released into the atmosphere when waste oil and other fuels go through the burner. A lot of that ends up in the bag house and you have to change those bags out conservatively twice a year...The whole plant has to come down in order for you to do that. Then there's a huge loss in efficiency, plus the cost of changing the bags. With LNG, you're changing the bags less often, and there's less wear and tear on other equipment. And it's just environmentally cleaner to burn LNG.

Cordon: You're greatly extending the equipment life of your plant by burning natural gas. When the fuel isn't to the right temperature you don't have the right viscosity and you're not atomizing the fuel to 100 percent. And when that's happening, you have unspent fuel. It's not combusted. That flies through the drum, into the bags, clogs up the bag house, gets stuck on the inside of the drum, warps the inside of the flighting, continuously fires off and degrades that equipment. Then it also goes into the bag house and strains the suction on the bag house, strains the flow of the bag house. When the oil is trapped inside of a fiber in a very hot environment, that leads to a major safety issue as well.

In terms of downtime, there's another aspect that's critical to consider, too: You're running your asphalt plant and you have trucks coming in picking up asphalt in real time, delivering it to a road project where that asphalt is going to be used. At that site, you have a paving crew with a lot of equipment just sitting there because your asphalt plant can't deliver the goods on time.

If your plant goes down because you have to clean equipment or because your fuel causes a problem, you now have a line of trucks sitting there, doing nothing but waiting ... maybe for three hours, six hours or even all day.

Or you may have to say, "We have another plant that's 100 miles away … we're just going to supply that job from that plant." If so, now you have added transportation costs, you have people sitting around at your plant and then there's the paving contractor and its crew at the job site sitting around.

Either way, in most cases, there are companies involved in this chain of events. Now let's say the downtime happens three times over the course of six months. People in that chain are not going to buy asphalt from you anymore. How do you quantify that with somebody? It's really difficult to quantify that with a potential customer that they could lose business and permanently damage relationships.

If a customer is only looking at a fuel cost line item when weighing whether or not to use Blue Roads, then they are missing 90 percent of the financial picture.

Is pricing stability a big selling point as well? It seems it could be based on what you described.

Cordon: Blue Roads customers have more certainty on their input costs. That allows you to bid highway projects more efficiently. Our competitors don't know their cost of goods sold as well as our customers do.

Steward: We're signing multi-year agreements with our customers and we have a fairly tight bandwidth of pricing. The volatility of our delivered price per gallon is going to be far less than going with the competitive fuel of waste oil, or even propane for that matter. The ability of our customers to project and know what their price is going to be when they're bidding a contract that's going to happen a year out or more is a huge advantage.

Why? Because they need to put in bids for all their materials and costs to produce a job today for work that needs to be done in the future. The relative certainty that they have with LNG puts them in a much more competitive position from a cost projection perspective.

Being aligned with BP Energy Partners, is there cross-cooperation within its network of companies or other efficiencies that Blue Roads has taken advantage of in the past or may in the future?

Robertson: There definitely is. There's Mesa Natural Gas Solutions, which provides natural gas-powered generators. We work on a lot of power deals with them, which is wonderful. That's something that I've seen work really well at other private equity firms. You have that huge advantage and the benefit of having friendly people that you can connect with as needed. That's something that I've tried to put a decent amount of time, effort and energy into, and I think it's really paid off for us.

Steward: I think part of our strategy of investing across the natural gas value chain lends itself to a portfolio of companies having interactions because they sit in different parts of that value chain. Sometimes there are direct project synergies, but then there is also the sourcing of equipment, engineering and ideas.

I think it's one of the benefits of our strategy in investing all across that value chain as our different portfolio companies get to utilize each other to help all the businesses as a whole.

With consistent, rapid growth, what's next for Blue Roads?

Cordon: The next two to five years look really bright for us. The last two years have been very transformative and really important for the business. We're still adding a few parts and pieces, but to triple or quadruple the size of the business, we only need a handful of additional key people. We definitely won't need to double or triple the size of our workforce – we have fewer than 15 people – to see that much growth.

Because of the clean nature of LNG as a fuel, regulatory changes that we're starting to see from places like California also create opportunities for us because of the clean nature of LNG, as well as places like Arizona. Even think if the regulatory environment remained exactly as it is now, I think we could have a significant amount of growth. If it changes dramatically, we're going to have trouble keeping up because there will be so many opportunities.

Steward: The life cycle of the business and continued longevity will help us. We have been in front of some of the old-school folks in this industry for five years now. One of the things a lot of these guys want to see is that you're dependable … you're there, year after year. They want to see Blue Roads is still around and wasn't a flash in the pan. Now these guys know we aren't going away. Now we're a household name in the aggregates and asphalt space. People know who we are and what we do.

Robertson: Blue Roads is a great example of what we're trying to build at BP Energy Partners through these businesses: Good cultures internally, serving our customers, creating real economic value, creating opportunities on the employment front, growing businesses. And that's something we focus on and we've done that across our portfolio, including with Blue Roads. We're excited about where this business is and where it's going.

With Boone passing away, I've had a lot of time to kind of reflect on him and his legacy and what we're doing here as someone who worked for him for a long time and is now carrying this flag.

He was many things, but always an entrepreneur at heart. He loved to support businesses with growth capital, and loved empowering young managers to really go out there and grow their businesses with integrity. He stressed that you have to treat your people and your customers appropriately, as well as your suppliers. He was very proud of Blue Roads, and I think that he would be very excited about the company's future.

This interview was edited for clarity and brevity.