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The Basics of Crypto Mining Deals

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On this episode of Bracewell Crypto Bits, ***Jared Berg*** joins host Anne Termine for the first in a series of discussions about crypto mining. Jared and Anne discuss the basics around structuring and setting up a crypto mining operation. This episode will provide background for future episodes that will dive deeper into specific technical aspects of crypto mining deals.

Highlights:

What exactly is crypto mining?

Crypto mining at its most basic level is effectively computers that are specially designed to run an algorithm that results in generation of Bitcoin or some other blockchain currency, all based on proof of work type blockchains.

Crypto mining has been a really hot topic for the past several months, ever since China banned crypto mining in the country and miners have been searching the worldwide for a new home. One of the places that we've seen them begin to settle and best fit their needs is Texas. Why is Texas so desirable for crypto mining shops?

Aside from the generally favorable business environment, energy prices are low. When you are running a mining operation, the biggest input cost without a doubt is energy. The other things that are also important to a large-scale mining operation is land. Turns out, Texas has a lot of land. So, cheap energy plus lots of land equals a good mining environment.

How do these operations work in terms of who's owning these facilities? How are they operating on a daily basis?

We're seeing everything from smaller operations that are trying to get up and off the ground, to folks who are kind of venturing into the mining space but are trying to partner with large scale mining rig manufacturers or other large-scale miners that are trying to move their rigs from China over to the United States. That was particularly big last year.

Right after China instituted the ban, there was a heavy load of different groups that were trying to move miners to a safer place where they weren't going to get destroyed because, needless to say, these mining rigs are expensive — literally shipping containers full of these things were arriving anywhere in the United States, just to get them out of China. So, the types of different clients that we're seeing are all over the books, but we are also seeing private equity-backed or private investors who have backed a particular group or something like that, but really, it’s all over the board.

How are they differently set up? Will somebody own the land and rent it out, or will somebody buy the land and bring their own miners in?

So the beauty of a mining operation is that it's very mobile. You can be as simple as setting up a container full of mining rigs, bring it out into the middle of the oil field and hook it up to a flare stack, and have an onsite generator there and basically just mine that way. You can also have more solid setups, or permanent setups, where you're building kind of to specification a facility that is specifically designed for either large scale mining operations or hosting servers generally. The benefit about mining is that you don't have necessarily the same access to data issues that you have with a regular server farm kind of set up. But you also see folks renting a facility, an existing warehouse, and setting up in a warehouse. We've seen deals where there was a group that went into an old steel smelting, facility. The thing that's interesting is what you're really looking for are large interconnections with the grid. And if you can plug and play into a large warehouse, you can save a lot of costs, a lot of time. It all comes back down to how much energy are you going to use, and interconnections are sized differently based on how much energy load is being used effectively.

Does crypto require traditional electrical power, or are we seeing deals that explore lots of different areas in terms of energy?

Energy sources, again, are all over the map. You've seen a lot of miners try what's called the flare gas approach, where they set up a container full of mining rigs onsite at an oil and gas well, and every oil and gas well produces both oil, but also natural gas, associated gas. In a lot of areas, it's not commercial to put that natural gas that's produced into a pipeline so it's flared instead, or rather burned off. So, what you'll see some of these oil and gas companies and miners do is get together, basically hook a generator up to that flare stack, and power the generator off of the raw gas that's coming out of the ground. That generator produces the energy to run the mining rigs.

So let's talk about some of the things that are coming up in future episodes. I know we're going to talk about one episode about building the facility, the location and construction. And what are some highlights we're going to hear in there?

We will talk a little bit about what trends we're seeing in Texas in particular on the commercial real estate side. As I said earlier, things are getting taken up really quickly. There's a lot of businesses moving to Texas, so it is very difficult to find existing warehouse space, in north Texas in particular. Then we'll talk about the very basics of what does it look like if you do a land lease, a long-term land lease versus leasing a facility, versus constructing a facility. What does the construction process look like? Who are you engaging with? Do you have to enter into a contract? The short answer is yes.

Have questions about crypto mining? Email ***Anne Termine*** and ***Jared Berg***.

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