OVERVIEW OF THE SURVEY

As part of our series of Energy Bank Price Deck Surveys that we publish twice a year, we asked leading energy banks in September 2020 to provide their fall oil and gas price decks that they use to determine oil and gas producers’ borrowing bases under their 2020 reserve-based loans. We received responses and data from 16 of these banks by early October 2020.

The borrowing base, which is the amount of credit a lender is willing to extend to an oil and gas producer, is based on a number of factors. Each energy lender has its own proprietary algorithm on how to determine its borrowing base. Future expectations of commodity prices (the price deck) over the life of the loan is not the sole determiner. However, it is a principal variable in a bank’s calculations. Therefore, predictions regarding future borrowing base redeterminations are heavily influenced by future commodity price expectations.
BY THE NUMBERS – SPRING AND FALL 2020 SURVEYS

SPRING 2020
- 32 banks invited to participate
- 21 banks responded
- 66% participation rate

76% of the 21 banks provided sensitivity cases for their spring 2020 price decks.

FALL 2020
- 20 banks invited to participate
- 16 banks responded
- 80% participation rate

75% of the 16 banks provided sensitivity cases for their fall 2020 price decks.

Sensitivity Analysis
- Did Not Provide Data
- Provided Data

24%
76%

25%
75%
OIL BASE CASE – FALL 2020

Oil Base - Fall 2020

Price $/BBL

Year

Bank 1
Bank 2
Bank 3
Bank 4
Bank 5
Bank 6
Bank 7
Bank 8
Bank 9
Bank 10
Bank 11
Bank 12
Bank 13
Bank 14
Bank 15
Bank 16
MEAN

Haynes and Boone
Energy Bank Price Deck Survey:
Fall 2020
Some of the banks did not provide oil sensitivity data.
GAS BASE CASE – FALL 2020

Gas Base - Fall 2020

Price $/MMBTU

Year

2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030

Bank 1
Bank 2
Bank 3
Bank 4
Bank 5
Bank 6
Bank 7
Bank 8
Bank 9
Bank 10
Bank 11
Bank 12
Bank 13
Bank 14
Bank 15
Bank 16

MEAN
Gas Sensitivity - Fall 2020

Some of the banks did not provide gas sensitivity data.
Oil Base Case – Spring vs. Fall 2020

This chart displays the cumulative mean for spring 2020 post-crash price decks and fall 2020 price decks.
This chart displays the cumulative mean for spring 2020 post-crash price decks and fall 2020 price decks.
GAS BASE CASE – SPRING VS. FALL 2020

Gas Base - Spring vs. Fall 2020

This chart displays the cumulative mean for spring 2020 post-crash price decks and fall 2020 price decks.
Gas Sensitivity - Spring vs. Fall 2020

This chart displays the cumulative mean for spring 2020 post-crash price decks and fall 2020 price decks.
KEY TAKEAWAYS FOR OIL – FALL 2020

🌿 Fall vs. Spring Pricing – Oil: The average Base Case for oil in fall 2020 tracks with the spring 2020 post-crash Base Case.

🔥 Calm Before the Storm? Following the spring crash in oil prices, banks responded by aggressively reduced their price decks from the prior fall. Over the summer, prices recovered and seemed to be in a holding pattern around $40/bbl. Given the similar pricing from last spring, it would be reasonable to expect little change in producers’ fall borrowing base redeterminations. However, Haynes and Boone’s recently concluded Fall 2020 Borrowing Base Redeterminations Survey indicates that industry leaders are predicting an overall decrease of 15.7% on average from last spring. As noted, prices are not the only factor that goes into a bank’s borrowing base redetermination. The negative sentiment may be reflective of the more conservative approach energy bankers are taking in underwriting loans to producers. Rather than give some value to undrilled wells, producers are expecting banks to only give credit to proved producing wells. This means that producers will not see any value for prospective wells, but rather only credit for wells currently producing cash flow that can repay their loans.
Fall vs. Spring Pricing – Gas: The average fall Base Case for gas is 13% higher through 2023 than last spring’s Base Case prices.

Near Term Bounce: Market sentiment in NYMEX strip pricing for gas has significantly improved from last spring. The increase in the strip is reflected in the higher fall price deck, at least for the near term. In the years farther out on the price curve, fall prices fall more in line with spring’s price predictions. Whether or not this bump in the near term for gas prices will translate into higher borrowing bases (and more aggressive hedging by gas producers) remains to be seen over the next six months.
HAYNES AND BOONE ENERGY REPORTS

Our oil and gas lawyers have been helping clients make the right connections and navigate the ever-changing legal maze to successfully close deals. Take advantage of our other reports, surveys and publications that help keep you one step ahead:

- **Borrowing Base Redeterminations Survey**: a forward-looking survey that reveals what lenders, borrowers and others in the industry expect regarding the borrowing base redeterminations in light of oil price uncertainty.
- **Midstream Report**: includes details on midstream companies that have filed for bankruptcy since 2015.
- **Oil Patch Bankruptcy Monitor**: includes details on oil and gas producers that have filed for bankruptcy since 2015.
- **Oilfield Services Bankruptcy Tracker**: includes details on oilfield services companies that have filed for bankruptcy since 2015.

Contact **Hal Means** at 713.547.2137 or hal.means@haynesboone.com to receive our latest reports, alerts, surveys and invitations to our energy related events.
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