HAYNES BOONE

Haynes and Boone Releases Borrowing Base Redeterminations Survey and Other Key Data in Energy Report

By Kraig Grahmann, Jeff Nichols | September 26, 2018

RELATED PRACTICES Energy, Power and Natural Resources, Oil and Gas, Oilfield Services, Restructuring

Haynes Boone today released its Fall 2018 Energy Roundup, a comprehensive report on the industry that reflects an improved outlook for oil and gas producers.

The Energy Roundup includes the firm's latest "Borrowing Base Redeterminations Survey," which captures September polling of oil and gas producers, oilfield services companies, energy lenders, private equity firms, and other industry participants to get their predictions about producers' future borrowing capacity or "borrowing bases." Producers' loans are assessed by their lenders twice a year to determine how much credit will be available based upon the collateral value of the producers' property, referred to as their "borrowing bases." The borrowing bases turn on banks' projections about future prices for the producers' oil and gas reserves. The survey, which the firm has conducted twice a year since April 2015, offers a clear, forward-looking view about the projected financial state of the domestic energy market.

The latest borrowing base survey offers a bright outlook for oil and gas producers, with more than 78 percent of respondents expecting borrowing bases to increase. Further, 36 percent of respondents expect borrowing bases to increase by 20 percent or greater, a rate of optimism that is on par with the firm's spring 2018 borrowing base survey.

"The survey shows that optimism for the upstream oil and gas industry is really gaining momentum," said Kraig Grahmann, head of Haynes Boone's Energy Finance Practice Group. "We have now had several recent surveys, including the fall 2018 survey, predicting that producers will see borrowing base increases of 10 to 20 percent."

The fall 2018 survey offers other key findings:

- Strong oil prices are leading borrowers to hedge oil prices. Two-thirds of respondents indicate that borrowers have locked in prices for the majority of their 2019 production
- Producers are expected to use cash flow from operations, bank debt, and private equity as their primary sources of capital in 2019
- Midstream capacity constraint was, by far, the most frequently cited concern by respondents, outranking concerns related to services costs and commodity price volatility.

"In prior years, producers were worried about a sudden drop in commodity prices or high costs of oilfield services," Grahmann said. "Now, when asked about the biggest challenge facing oil and gas industry participants, survey respondents were most concerned about midstream capacity constraints in transporting production to market."

Elsewhere in its Fall 2018 Energy Roundup, Haynes Boone released updated data on bankruptcy filings by energy companies, which show a continued decline from the surge of filings that followed the oil price collapse that started in late 2014. The firm tracks bankruptcy filings by energy companies in three databases that it updates periodically: the Oil Patch Bankruptcy Monitor, which tracks filings by oil and gas producers; the Oilfield Services Bankruptcy Tracker, which covers filings by oilfield services companies; and the Midstream Report, covering midstream companies. The Energy Roundup summarizes bankruptcy filing data from the beginning of 2015 through Aug. 31, 2018.

The Energy Roundup also includes case studies and analysis of current topics of interest to the energy industry. “The Energy Roundup serves not only to show the breadth and depth of our energy team’s experience but also Haynes Boone’s commitment to the industry and our energy clients,” said Energy Practice Co-Chair Buddy Clark.

Jeff Nichols, Energy Practice Co-Chair, says the roundup uniquely “fills the gap between analyst studies on the one hand and traditional legal publications on the other hand.” He added: “Our charts and articles have become a valuable resource in the industry, as evidenced by the numerous times they have been quoted in financial publications and business plans.”

Haynes Boone is an international corporate law firm with offices in Texas, New York, California, Chicago, Denver, Washington, D.C., London, Mexico City and Shanghai, providing a full spectrum of legal services in energy, technology, financial services and private equity. With more than 550 lawyers, Haynes Boone is ranked among the largest U.S.-based firms by *The National Law Journal*, *The American Lawyer* and *The Lawyer*.

The survey results generated media coverage in the following publications:

ABL Advisor

Houston Business Journal (Subscription required)

Natural Gas Intelligence

Oil & Gas 360

Oil and Gas Investor

Oil & Gas Journal

Reuters

S&P Global Platts

Texas Lawbook (Subscription required)

Texas Lawyer

The Dallas Morning News

TheStreet