

Haynes and Boone Releases Fall 2019 Energy Roundup and Borrowing Base Redeterminations Survey

October 3, 2019 Kraig Grahmann, Albert Tan, Austin Elam, Jeff Nichols, Bradley Richards, Glenn Kangisser, Diana Liebmann, Andreas Silcher, Phil Lookadoo, Craig Stahl, Michael Mazzone

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Haynes Boone today released its [Fall 2019 Energy Roundup](#), a comprehensive report on the state of the energy industry, as well as updates to several other key [energy-related reports](#).

The Energy Roundup includes the firm's latest "[Borrowing Base Redeterminations Survey](#)," which captures September polling of oil and gas producers, energy lenders, oilfield services companies, private equity firms and other industry participants to get their predictions about producers' future borrowing capacity.

Twice a year, producers' loans are assessed by their lenders 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.

For the first time since 2016, the fall 2019 borrowing base survey predicts a decrease in credit availability for producers and a strong interest in alternative sources of capital. The majority of respondents in the latest survey expect borrowing bases to decrease in the upcoming redetermination season. The largest segment of those surveyed, about 40%, expected borrowing bases to decrease by 10%. In contrast, the largest share of respondents (40%) in the firm's spring 2019 survey said they expected borrowing bases to remain the same.

"The fall borrowing base survey clearly indicates that reserve-based loan capital is becoming constrained," said [Kraig Grahmann](#), head of Haynes Boone's Energy Finance Practice Group. "E&P companies will remain boxed in on capital sources for a while."

Other key findings in the fall 2019 survey include:

- Respondents are reporting higher hedging levels than in prior surveys, indicating that producers are more focused on reducing commodity price risk.
- Producers are expected to use cash flow from operations and bank debt as their primary sources of capital in 2020.
- The vast majority of respondents believe that it will be 2021 or later before producers will have access to equity capital markets.

"Utilization of public debt and equity capital markets as a source of capital for producers has gone from small in the spring 2019 survey to miniscule in the fall 2019 survey," Grahmann said. "Alternative capital providers are filling the void with debt financing – the percentage of respondents seeing debt from alternative capital providers as a primary source capital has doubled since spring 2019."

The latest borrowing base survey also includes a survey of reserve-based lenders' oil and gas price decks, to provide more context on Haynes Boone's survey of the banks' upcoming borrowing base redeterminations. Based on pricing information provided by leading energy banks, banks on average are showing a slight 1.4% drop in oil prices and a 6.5% drop in gas prices from last spring's price decks. The information charted in the Energy Roundup also shows a 15% spread between the highest and lowest bank price decks for predicted oil and gas prices as of the end of the next decade.

In addition to the latest borrowing-base predictions, the Fall 2019 Energy Roundup includes detailed analysis of energy trends in the U.S. and abroad, including an article about subscription credit facilities as an alternative source of capital for producers and a piece about growth in the renewables space, especially with respect to wind and solar power.

Haynes Boone's Energy Practice Group handles high-stakes transactions and litigation, as well as financings and regulatory advice, for a diverse array of clients in the U.S. and overseas.

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