

Haynes and Boone Reports Show Improvement for Oil and Gas Producers

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Haynes Boone's spring 2018 survey of oil and gas borrowers and lenders demonstrates a modestly improved outlook for the upstream oil and gas industry.

In its "Borrowing Base Redeterminations Survey: Spring 2018," the firm polled a cross-section of industry executives to glean their views about the state of the energy lending market. Specifically, the survey asked respondents to offer predictions about producers' future borrowing capacity or "borrowing bases." Lenders assess producers' loans twice a year to determine how much credit will be available based upon the collateral value of the producers' properties, referred to as their "borrowing bases." The borrowing bases turn on banks' projections about future prices for the producers' oil and gas reserves. This survey, the seventh by Haynes Boone since April 2015, offers a unique, forward-looking view about the projected financial state of the U.S. energy market.

The survey results this spring indicate that conditions are continuing to improve for oil and gas producers. More than 80 percent of respondents expect borrowing bases to increase in the spring of 2018.

"That is the highest rate of optimism about borrowing base increases that we've seen in the history of the survey," said [Kraig Grahmann](#), head of Haynes Boone's Energy Finance Practice Group.

Still, Grahmann noted, most respondents expect borrowing bases to increase at a modest rate of 10 to 20 percent, which is in line with the approximately 20 percent increase in the price of WTI crude oil since October 2017.

The spring 2018 survey offers other key findings:

- Borrowers are locking in increased oil prices. The respondents estimate that producers have a significant percentage — 50 to 60 percent — of their 2018 production hedged.
- Producers will use cash flow from operations, bank debt and private equity as their primary sources of capital in 2018.
- Respondents predict that the Eagle Ford and Austin Chalk will be the next "big play." The survey also shows strong interest in the Niobrara and Powder River Basin.

Separately, Haynes Boone released updated data on bankruptcy filings by energy companies that likewise point to a modest improvement in the energy markets. Haynes Boone 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 updated Haynes Boone bankruptcy reports summarize filing data through the first quarter of 2018.

“The number of E&P bankruptcy filings has continued to drop off as most financially distressed producers have restructured their debt, either through the bankruptcy process or outside of bankruptcy,” said Energy Practice Co-Chair Buddy Clark. That said, he added, “the magnitude of some recent producer filings show that the increase in oil prices since 2016 has not been enough for some larger independents to pull out of the financial death spiral caused by the oil price collapse that started in late 2014.”

Haynes Boone Partner [Charles A. Beckham Jr.](#) said that the recent Haynes Boone energy bankruptcy reports further underscore a trend in which most companies, especially the larger producers, are entering into negotiations with creditors in advance of bankruptcy to gain support for their restructuring, thereby reducing the uncertainty and length of time companies spend in bankruptcy.

“Producers are typically restructuring in the form of debt-for-equity exchange in which the creditors convert their debt for equity in the new company as it emerges from bankruptcy,” added Beckham, who has handled oil and gas bankruptcies for more than 35 years. “The new equity holders seem content to keep management in place post-bankruptcy. This can be attributed to the fact that the new owners are mostly financial players and not operational oil and gas professionals.”

Haynes Boone has played a key role in a number of high-profile E&P and oilfield service matters, including asset sales, refinancings, debt restructurings and Chapter 11 cases, representing debtors, creditors, energy lenders and private equity investors.

The spring 2018 release of the Borrowing Base Redeterminations Survey and energy bankruptcy reports garnered widespread media attention.

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