

Haynes and Boone Releases Spring 2020 Oil and Gas Industry Surveys

April 1, 2020 Kraig Grahmann

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Haynes Boone today released two data reports that underscore the current sentiment in the oil and gas industry amid the global economic slowdown and price war between Saudi Arabia and Russia.

The firm's latest [Borrowing Base Redeterminations Survey](#) captures polling through March 25 of oil and gas producers, oilfield services companies, financial institutions, private equity firms and other industry participants who were asked about their predictions for producers' future borrowing capacity. 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.

In the spring 2020 survey, a sizable majority of respondents expect borrowing bases to decrease by at least 20% in response to the recent freefall in commodity prices; 45% of respondents expect even deeper cuts, of 30% or more. In contrast, the largest share of respondents (40%) in the firm's fall 2019 survey said they expected borrowing bases to decrease by only 10% during that redetermination season.

[Kraig Grahmann](#), head of Haynes Boone's Energy Finance Practice Group, said the firm initially sent out survey questions in mid-February but then reached out again to industry professionals in early March to ask them if they wanted to revise their predictions in light of the OPEC price war and growing concerns about the coronavirus. The latter responses were far more pessimistic, he said. "The rapid deterioration in market conditions that started on March 8, 2020 had an immediate and deep impact on predictions about future borrowing capacity," Grahmann said.

Other key findings in the spring 2020 survey include:

- Producers are entering this downturn relatively well-hedged, raising a question about whether producers will keep these hedges in place to preserve cash flow or immediately monetize them to enhance liquidity.
- Producers are expected to use cash flow from operations as their primary sources of capital in 2020, followed by debt from alternative capital providers as the next likeliest source of capital.

"When compared to the fall 2019 responses, survey participants who see private equity as a source of E&P capital have dropped by nearly 50%," Grahmann said. "The difference is being made up for with debt from alternative capital providers."

Haynes Boone today also releases a survey of leading energy banks about reserve-based lenders' oil and gas price decks. As with its borrowing base redeterminations survey, the firm initially sent requests out to participating banks in mid-February and reached out again in March, after the announcement of price cuts by Saudi Arabia, to give the responding banks an opportunity to revise their price decks that were submitted pre-crash.

Key takeaways from the spring 2020 [Price Deck Survey](#) include:

- The average Base Case for oil post-crash is 15.6% lower than the fall 2019 Base Case.
- The average Base Case for gas post-crash is 12.3% lower than the fall 2019 Base Case.

“The significant drop in bank price decks from last fall signal a significant drop in collateral value for oil-weighted producers,” said Buddy Clark, co-chair of the firm’s Energy Practice Group. However, the continued uncertainty in global oil markets may give banks and borrowers an excuse to skip or postpone the Spring Borrowing Base season.” He added: “Gas prices have been low for so long, gas is starting to look like a more bankable commodity in comparison to oil, which is now subject to more volatility to the down-side. Perhaps this will be a case of ‘low and steady, wins the race.’”

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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