

Survey Says: Cautious Optimism in Redetermining Oil Patch Borrowing Bases

June 8, 2017 Kraig Grahmann

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This spring Haynes Boone polled energy lenders, upstream oil and gas producers, and other energy industry participants to get their predictions about producers' future borrowing capacity or "borrowing bases". Producers and lenders meet twice a year to assess borrowing bases — determinations that turn on banks' projections about the future prices of the producers' oil and gas reserves. The survey, which the firm has conducted twice a year since spring 2015, offers a unique forward-looking view about the projected financial state of the energy market.

The responses to the spring 2017 survey can be characterized by two words: cautious optimism. Respondents expect that 76 percent of oil and gas borrowers will see their borrowing bases increase or remain unchanged. This is improved from Haynes Boone's fall 2016 survey, when respondents expected only 59 percent of producers to see their borrowing bases increase or remain unchanged. The biggest difference between fall 2016 and spring 2017 is the modest oil price recovery that followed OPEC's November 30, 2016 decision to cut oil production by about 1.2 million barrels per day. Although oil and gas industry participants are typically skeptical of OPEC's ability to ensure members' compliance with announced production cuts, the production numbers released in the months that followed appear to provide some level of confidence in price stability and improvement.

Respondents have a positive outlook regarding how many oil and gas companies will see their access to reserve-based borrowing base credit stay the same or increase, but they do not expect any increases in these credit lines to be dramatic. Of those respondents expecting borrowing bases to increase, the overwhelming majority expect increases to be just ten percent above fall 2016 borrowing bases. The same goes for those survey respondents who expect borrowing bases to decrease – almost all expect the decreases to be just 10 percent below fall 2016 borrowing bases (with a handful expecting the decreases to be 20 or 30 percent below fall 2016 levels).

Excerpted from ABL Advisor. To read the full article, click [here](#).