Kraig Grahmann, Michael Threet, Ellen Conley, and Roy Schwartz Author Practical Law Journal Article

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Haynes Boone Partners Kraig Grahmann and Michael Threet and Associates Ellen Conley and Roy Schwartz published an article in *Practical Law Journal* titled “An Overview of Volumetric Production Payments (VPPs): Issues and Considerations.” Below is an excerpt.

Many oil & gas producers seeking liquidity to operate their businesses are considering options beyond those traditionally available to the oil & gas industry, such as reserve based loans (RBLs), high-yield debt, and equity investments. Some of these companies are also under pressure from their capital providers to clean up their balance sheets and keep them clean, which disincentivizes incurring new debt to finance their drilling programs. Some lenders and equity investors are also shying away from the oil & gas industry due to environmental, social, and governance (ESG) concerns.

Some of the capital providers that remain committed to the oil & gas sector are cautious about increasing their exposure to this sector because of the volatility in commodity prices. They are also being confronted with a smaller pool of creditworthy borrowers and are, as a result, imposing tighter underwriting requirements, limiting the size of borrowing base increases, or requiring borrowers to pay down debt. The significant barriers to entry when it comes to traditional financing arrangements that both producers and energy capital providers are facing are forcing some higher credit risk companies to seek alternative financing sources. Volumetric production payments (VPP) are one of the mechanisms that producers are increasingly using to address this challenge.

This Practice Note provides an introduction to VPP transactions. It:

• Discusses the basics of a VPP transaction, including the parties involved and their rights and obligations.

• Analyzes the benefits and limitations of a VPP.

• Discusses how VPP transactions are documented, including a brief discussion of the main agreements the parties and their counsel use to consummate these transactions.

Excerpted from *Practical Law Journal*. Read more here.

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