



Weekly E&P Update

January 23, 2024

Vol. 4

Creativity Shines in Upstream Energy Capital Markets

By Steve Hendrickson
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Last week, the IPAA (Independent Petroleum Association of America) hosted its [30th Annual Private Capital Conference](#) in Houston. This conference consistently stands out as an excellent event, featuring exceptional speakers and panelists who provide valuable insights into the current trends in upstream energy financial markets. (Full disclosure: I'm a member of the IPAA Capital Markets Committee that organizes this event.) While it's challenging to encompass all the crucial information I gathered in this summary, here are some highlights organized by the various panel sessions.

View from Washington - Dan Naatz, IPAA's Chief Operating Officer, offered an overview of the political and regulatory landscape at the federal level. He indicated we should anticipate minimal progress regarding new energy legislation due to a narrow two-vote majority during an election year. The Biden administration faces the challenging task of simultaneously maintaining low energy prices while pursuing rapid decarbonization. As Naatz aptly put it, "the muddled message is clear." Additionally, the new methane tax, passed as law rather than regulation, has significant deficiencies in its implementation and its impact on small producers.

Private Equity - The subtitle of this panel was "Exits, Underwriting Investments, and Fundraising." Current exit strategies differ from the lease-and-flip days. The key now is to build a company that is resilient and, ideally, generates positive cash flow to provide flexibility regarding exit timing. There's an expectation that the mega-mergers occurring today will lead to "non-core" divestitures in a year or two. However, companies may adopt a broader definition of "core," potentially offering fewer assets to the market. PE speakers expressed a degree of risk aversion; therefore, expect them to refrain from funding exploration or a return to conventional assets in the current environment, as failed deals pose existential problems for PE funds.

Asset-Backed Securitization - This source of capital continued to grow and had its dedicated panel at this year's conference. As the product, often referred to as "ABS technology," expands, so does the pool of investors. Most of these investors are generalists, necessitating a significant educational component and thorough technical due diligence. Approximately 30 to 40 investors are now actively considering these deals. Factors supporting the continued use of the ABS structure include ongoing contraction in the Reserve-Based Lending (RBL) market, continued industry consolidation, and the opportunity to monetize assets without selling them in a volatile A&D market. Key attributes of a desirable ABS asset include diversification, predictability of future production, and high hedging levels.

Private Credit - The Private Credit panel discussed various alternative products and identified diverse avenues for deploying capital creatively. This group views the reduction in historically "standard" private capital sources (private equity and RBLs) as an opportunity. Approaches gaining ground in this context include unitranche debt and volumetric production payments. They also believe they can offer more attractive debt capital to minerals and non-operating companies than commercial banks.

Family Offices - This capital source has gained enough prominence to warrant a panel. Family Offices possess unique characteristics that make them attractive investors for specific deals. They tend to have longer time horizons and greater patience, preferring to hold assets for extended periods to avoid capital gains taxes. This inclination leads them to prefer PDP deals resembling yield investments and companies designed for long-term ownership rather than quick sales. Typical deal sizes range from \$10 million to \$100 million, and they often engage in sophisticated deal terms.

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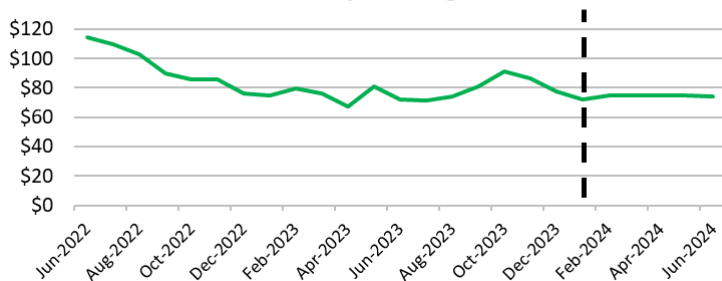
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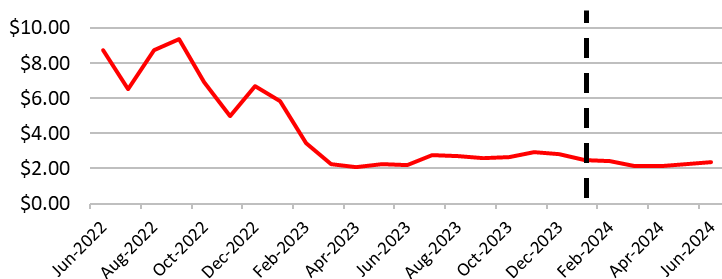


NYMEX FUTURE PRICING

WTI Spot Pricing



HH Spot Pricing



MONDAY'S MARKET CLOSE

NYMEX WTI CRUDE OIL FUTURES
as of January 22, 2024 Close (\$/bbl)

Period	Current	WoW Change	Last Week	1 Yr Ago
2024	\$73.86	\$1.52	\$72.34	\$75.64
2025	\$70.07	\$0.91	\$69.16	\$70.57
2026	\$67.00	\$0.55	\$66.45	\$66.58
2027	\$64.97	\$0.34	\$64.63	\$63.27
2028	\$63.80	\$0.24	\$63.56	\$60.51

NYMEX HH NATURAL GAS FUTURES
as of January 22, 2024 Close (\$/MMBtu)

Period	Current	WoW Change	Last Week	1 Yr Ago
2024	\$2.57	(\$0.42)	\$2.99	\$3.99
2025	\$3.45	(\$0.20)	\$3.65	\$4.23
2026	\$3.79	(\$0.08)	\$3.87	\$4.29
2027	\$3.85	(\$0.01)	\$3.86	\$4.37
2028	\$3.73	(\$0.09)	\$3.82	\$4.45

INDUSTRY METRICS—QUICK SNAPSHOT

	Current	Last Week	WoW Change	%Change
Crude Oil Near-Month Price (\$/bbl)	\$74.68	\$72.63	\$2.05	3%
Natural Gas Near-Month Price (\$/MMBtu)	\$2.44	\$3.11	(\$0.68)	(22%)
Weekly Upstream-Deal Transaction Value (\$MM)	\$1,362.00	\$11,645.20	(\$10,283.20)	(88%)
Weekly Number of Upstream-Deal Transactions	4	11	(7)	(64%)
Current Total US Rig Count	620	619	1	0.2%
US Field Crude Oil Production (MMbbl/day)	13.3	13.2	0.1	0.8%
US Field Dry Natural Gas Production (Bcf/day)	103.6	110.8	(7)	(7%)
Commercial Crude Oil Stocks-Excluding SPR (MMbbl)	430	432	(2)	(0.6%)
Natural Gas Stocks-Working Gas Underground Storage (Bcf)	3,182	3,336	(154)	(5%)
Total Drilled But Uncompleted Wells (DUC-Last Month)	4,498	4,498	0	-

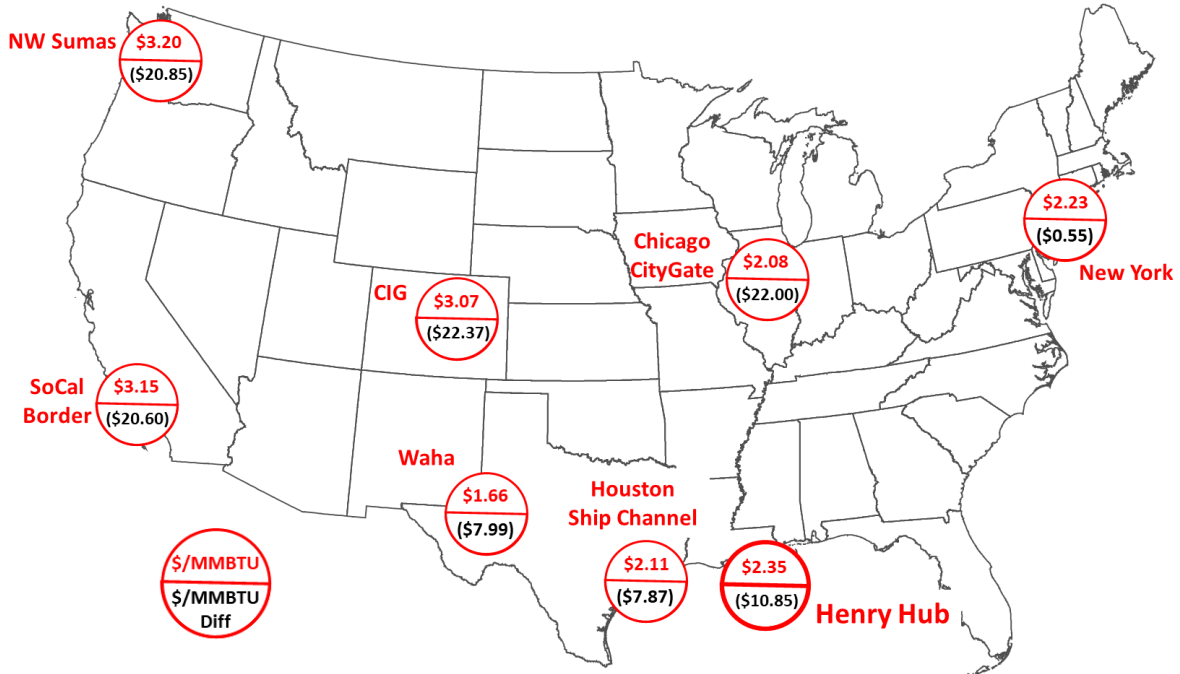
*Source—Energy Information Administration, United States (EIA)

*Source—Baker Hughes North America Rotary Rig Count & PLS M&A Database

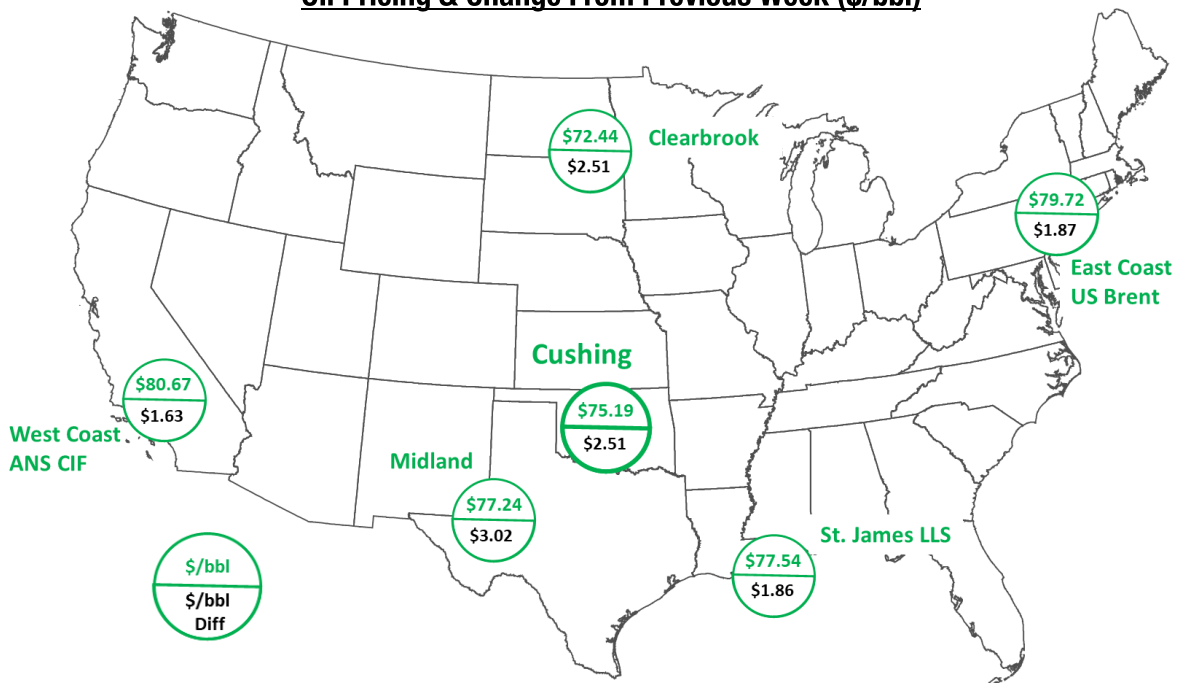


US COMMODITY PRICES CONTINUED

Natural Gas Pricing & Change From Previous Week (\$/MMBTu)



Oil Pricing & Change From Previous Week (\$/bbl)



*Source—Bloomberg LP



SELECTED INDUSTRY HEADLINES

US Drillers Add Oil and Gas Rigs for First Time in Three Weeks

U.S. energy firms this week added oil and natural gas rigs for the first time in three weeks, energy services firm Baker Hughes said in its closely followed report recently.

IEA Says Increases in Oil Demand Set to Halve

Increases in global oil demand are set to halve from 2.3 million barrels per day in 2023 to 1.2 million barrels per day this year, with the post-Covid recovery all but complete, GDP growth below trend in major economies, and as energy efficiency improvements and electrification of the vehicle fleet curb oil use.

Vitol: Oil Demand Peaks in 2030s, Saudis to Quit Supply Cut This Year (LOGIN CREDENTIALS REQUIRED)

Vitol executive Ben Marshall told oil and gas producers at IPAA's Private Capital Conference that Saudi Arabia is losing patience. Also, the energy transition will take longer than expected.

This Is What's Driving the Big Surge in US Oil Production (LOGIN CREDENTIALS REQUIRED)

In the early 2010s, US shale players were producing oil like crazy, with no concerns about profitability.

Oil Down as Traders Assess Mixed Signals on Supply

Oil prices fell on Tuesday, handing back some of the previous day's gains, as traders weighed rising crude supply in Libya and Norway against production outages in the United States and geopolitical tensions.

Pair of Gas Projects Gets FERC Nod

The Federal Energy Regulatory Commission approved key pipeline projects Thursday during its first open meeting of 2024 — including a high-profile permit for the nation's largest public power provider, which is seeking to transition away from coal.

US Rethinks Gas Exports, Spooking Europe

The Biden administration's climate-driven rethinking of U.S. natural gas exports is spooking Europe's fragile energy industry.

Natural Gas Futures Continue to Sink on Mild Temps (LOGIN CREDENTIALS REQUIRED)

A mild temperature outlook stretching into early February continued to put pressure on natural gas futures in early trading Tuesday.

BMI Forecasts Henry Hub Price Out to 2028

According to the report, BMI sees the commodity averaging \$3.4 per million British thermal units (MMBtu) in 2024, \$3.6 per MMBtu in 2025, \$3.8 per MMBtu in both 2026 and 2027, and \$4.0 per MMBtu in 2028.

Natural Gas Futures Sink to Lowest Level This Year (LOGIN CREDENTIALS REQUIRED)

Natural gas futures slide to their lowest settlement since the end of December as the market prepares for warmer weather following this week's cold blast across much of the U.S. that lifted heating demand and shut in some gas production.

Global LNG Markets May Start to Soften Sooner Than Expected

Global LNG markets could start to loosen as early as 2024 as Asia and Europe emerge from a mild winter with healthy inventories and demand from big gas consumers is capped by slow economic recovery, analysts said.

Exxon Sues ESG Investors to Stop Climate Proposals on Ballot

Exxon Mobil Corp. filed a lawsuit against US and Dutch climate activist investors in an effort to remove what it describes as their "extreme agenda" from the ballot at its annual shareholder meetings.

Next-Generation Electric Fracturing System Improves Efficiency, ESG Performance

An innovative 5,000-hp frac platform combines intelligent electrical architecture and simplified drivetrains to increase power density and flexibility, streamline rig-up logistics and minimize carbon emissions.



SELECTED RECENT TRANSACTIONS

W&T Offshore to Increase Oil and Gas Production With \$72 Million U.S. Gulf of Mexico Acquisitions

W&T Offshore, Inc. has completed the accretive acquisition of six fields in shallow waters of the U.S. Gulf of Mexico.

Talos Energy to Acquire QuarterNorth Energy For \$1.29 Billion

Oil and gas company Talos Energy, said it will acquire privately held QuarterNorth Energy in a \$1.29 billion cash-and-stock deal to bolster its presence in the Gulf of Mexico.

Prairie Operating Expands With \$94.5 Million Asset Acquisition

Prairie Operating Co., an oil and gas company, has announced a definitive agreement to acquire the assets of Nickel Road Operating LLC for a total consideration of \$94.5 million.

Chesapeake Energy Merges With Southwestern For \$7.4 Billion—Becomes Largest Natural Gas Producer In U.S.

Chesapeake Energy will merge with Southwestern Energy in an all-stock deal valued at \$7.4 billion, both companies announced Thursday, the latest transaction in the energy industry that would make Chesapeake the largest natural gas producer in the U.S.

U.S. Energy Corp. Announces Completion of Asset Divestitures and Provides Liquidity Update

U.S. Energy Corp, a growth-focused energy company engaged in the operation of high-quality producing oil and natural gas assets, today announced it had completed a series of non-core asset divestitures.

Evolution Petroleum Announces Acquisition of Non-operated Oil and Gas Assets

Evolution Petroleum Corporation announced that it has entered into definitive agreements to acquire non-operated oil and natural gas assets in the SCOOP and STACK plays in central Oklahoma for \$43.5 million in cash.

Trio Petroleum Announces an Option to Acquire a 20% Interest in the Asphalt Ridge Development Project in Utah

Trio Petroleum Corp, a California-based oil and gas company, announced that it has secured an option to acquire a 20% interest in a sweet, heavy-oil development project at Asphalt Ridge, located near the town of Vernal in Uinta County in northeastern Utah.

APA Corp to Buy Callon Petroleum in \$4.5 Billion All-Stock Deal

Callon Petroleum +6% pre-market recently after APA Corp. agreed to acquire the company in an all-stock deal valued at ~\$4.5B including debt, boosting its presence in the Permian Basin.

Ellipsis U.S. Onshore Acquires Oil, Gas Assets in U.S. Permian, DJ, Salt Basins

Ellipsis U.S. Onshore Holdings LLC has acquired additional assets located in multiple basins onshore the U.S.

Vital Energy Makes \$55 Million of Acquisitions in Permian Basin

Tulsa's Vital Energy Inc. is expanding its Permian Basin holdings with a \$55 million acquisition of additional working interests from Permian Basin operator Henry Energy LP, Moriah Henry Partners LLC and Henry Resources LLC.

Westlawn Group Announces Company Formation and the Closing of Multiple Investments in the Gulf of Mexico

Westlawn Group announced the successful launch of Westlawn Americas Offshore following the acquisition of multiple assets across deepwater Gulf of Mexico with current production in excess of 10,000 BOEPD and multiple near-term growth opportunities.

Tokyo Gas To Acquire Rockcliff Energy for \$2.7 Billion

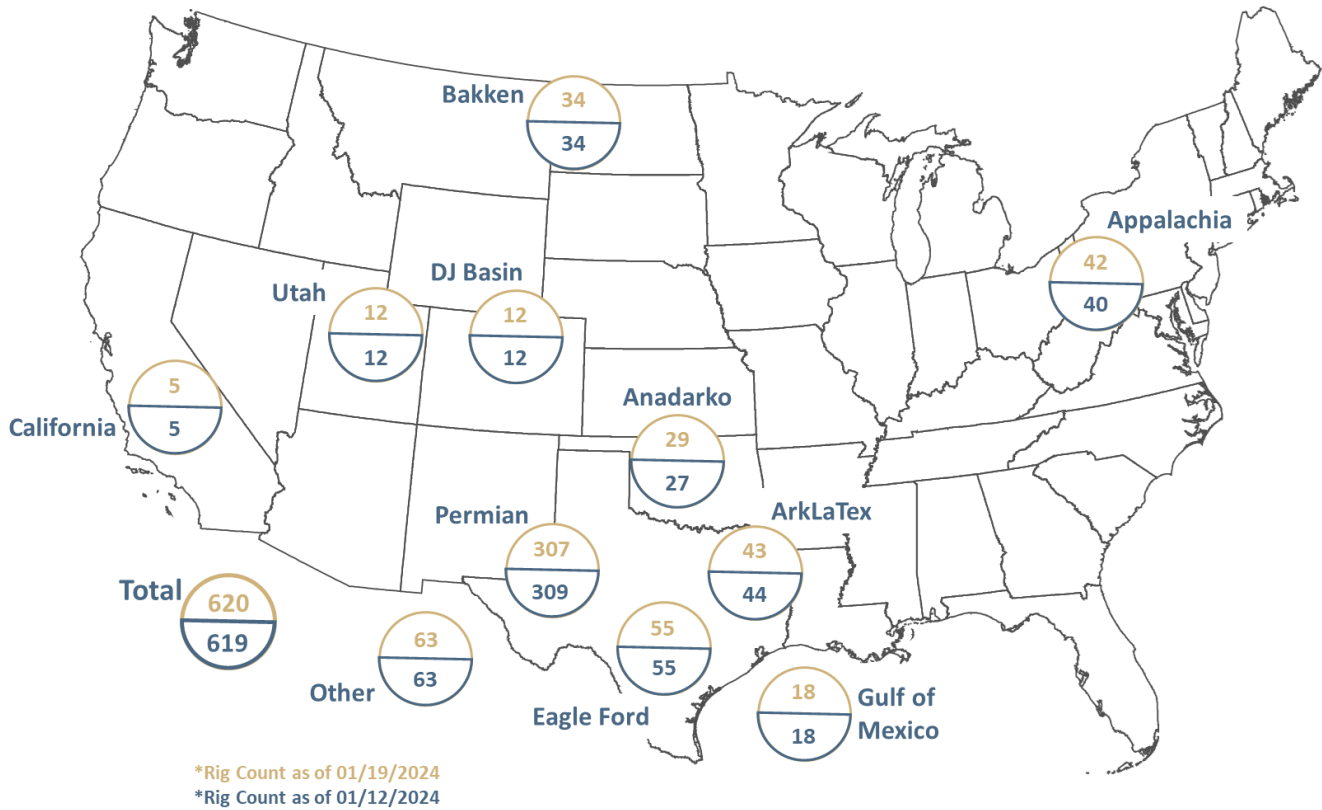
A unit of Tokyo Gas is buying private equity funded Rockcliff Energy II for \$2.7 billion in a bid to expand its overseas exposure to natural gas markets.

Fury Resources to Acquire Delaware Basin Operator Battalion Oil

Privately held Fury Resources Inc. agreed to acquire Delaware basin-operator Battalion Oil Corp., Houston, for \$9.80/share, a deal valued at \$450 million.



RIG ACTIVITY BY US REGION

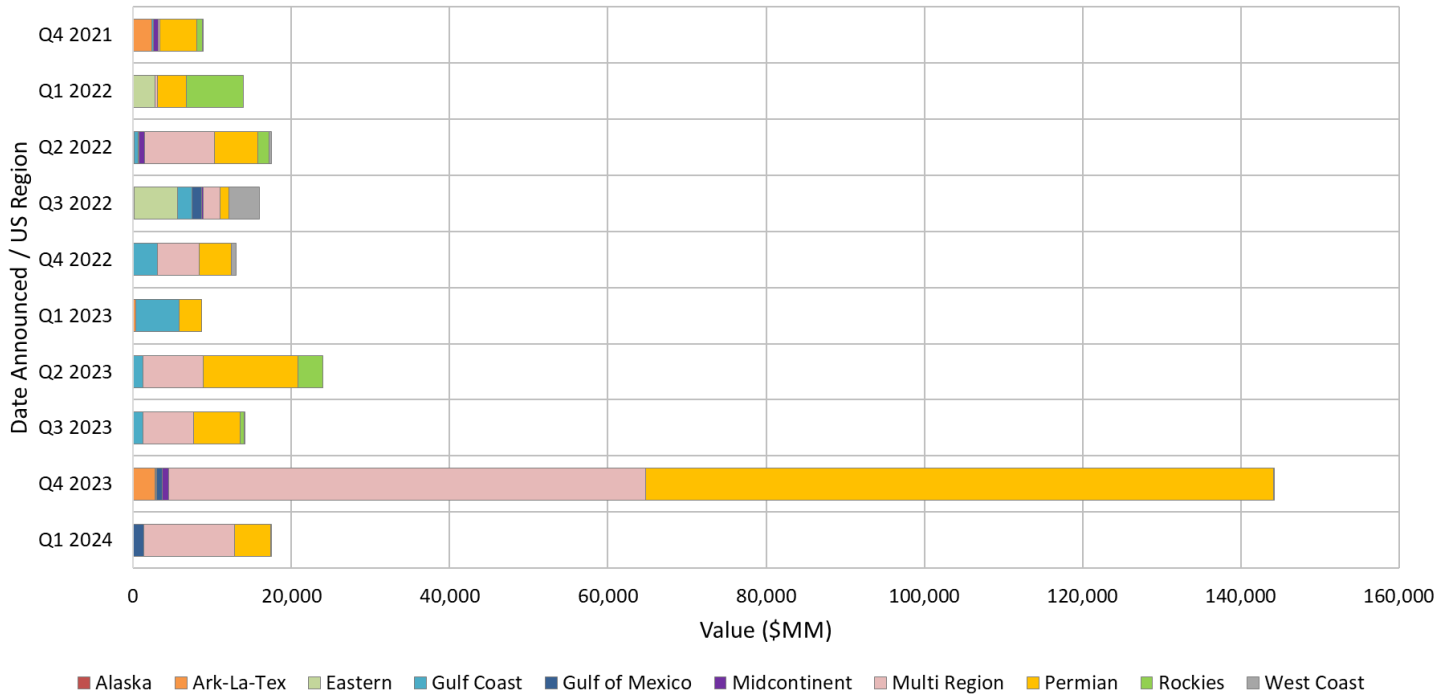


U.S. Rig Breakouts	Week Ending 01/19/2024			Week Ending 01/12/2024		Week Ending 01/20/2023
	Count	+/-	Count	+/-	Count	
Oil	497	(2)	499	(116)	613	
Gas	120	3	117	(36)	156	
Not Specified	3	0	3	1	2	
Directional	48	0	48	(1)	49	
Horizontal	560	(1)	561	(140)	700	
Vertical	12	2	10	(10)	22	
Land (Inc Others)	600	1	599	(153)	753	
Inland Waters	0	0	0	(2)	2	
Offshore	20	0	20	4	16	
US Total	620	1	619	(151)	771	

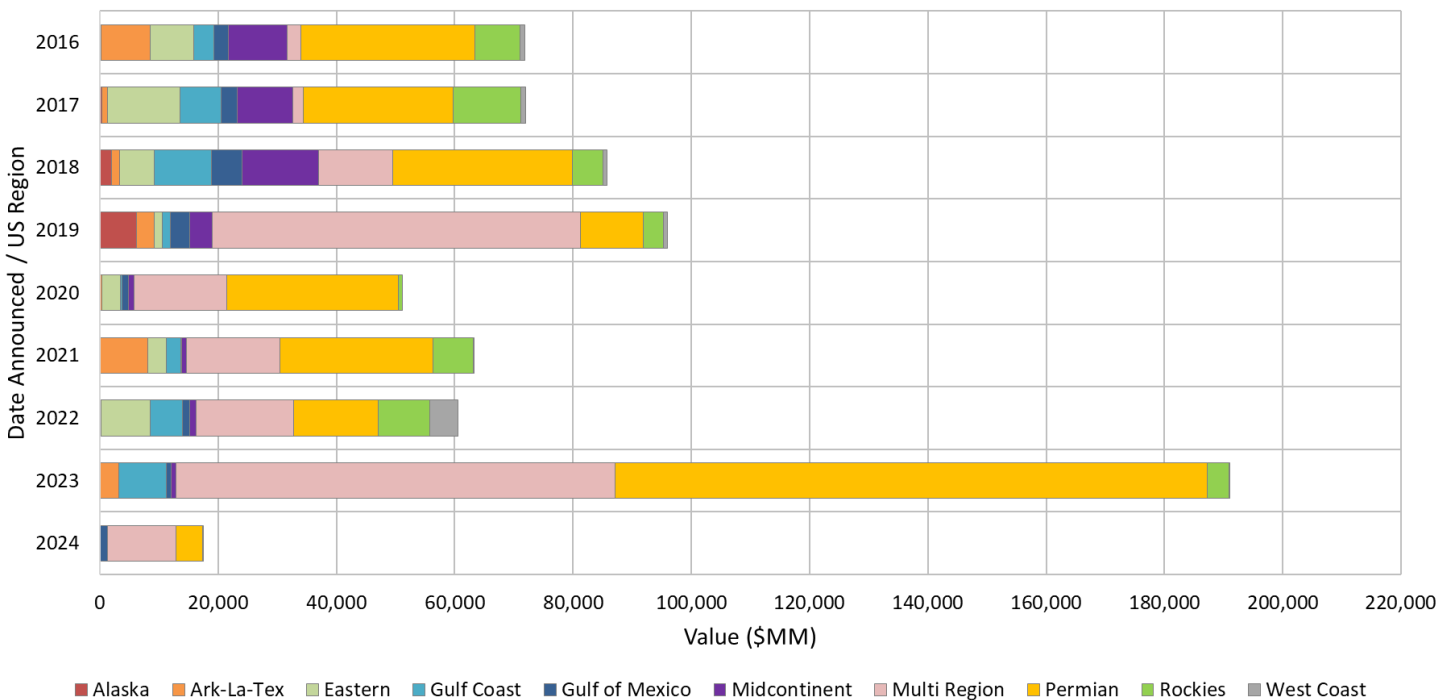
*Source—Baker Hughes Weekly Rig Counts



DEAL VALUE BY US REGION (BY QUARTER)



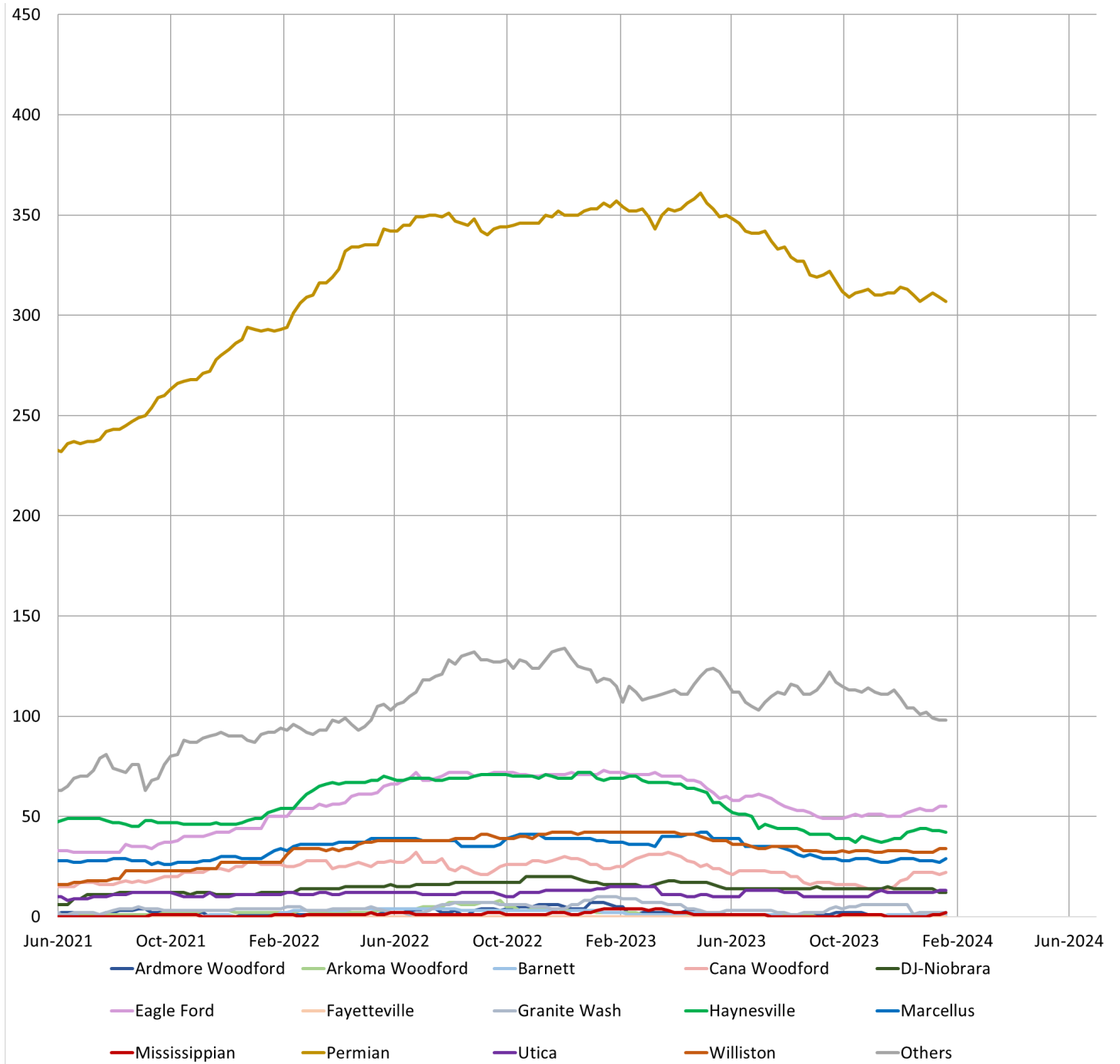
DEAL VALUE BY US REGION (BY YEAR)



*Source—PLS M&A Database (Charts exclude terminated deals)



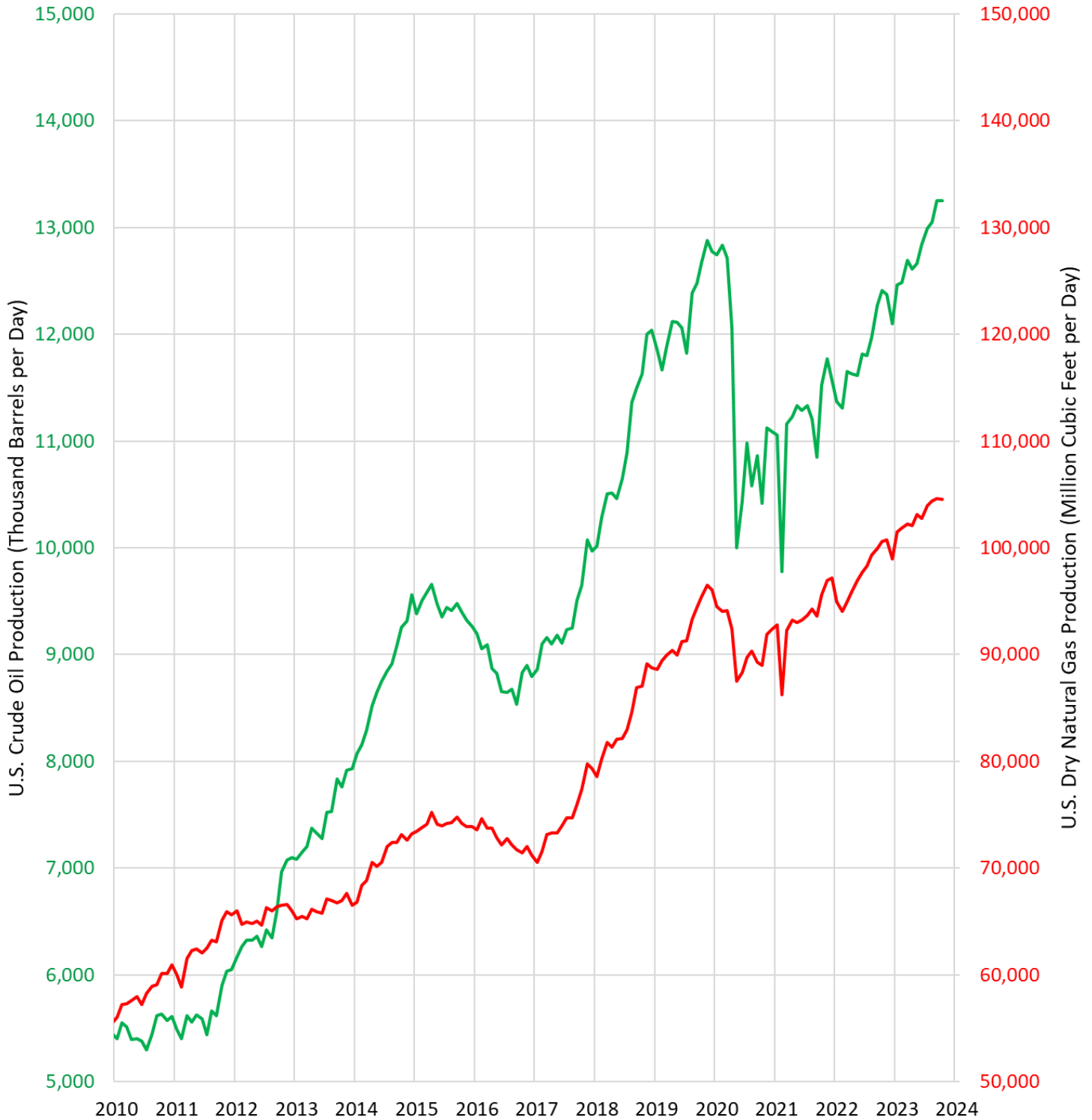
RIG ACTIVITY BY US REGION



*Source—Baker Hughes Weekly Rig Counts



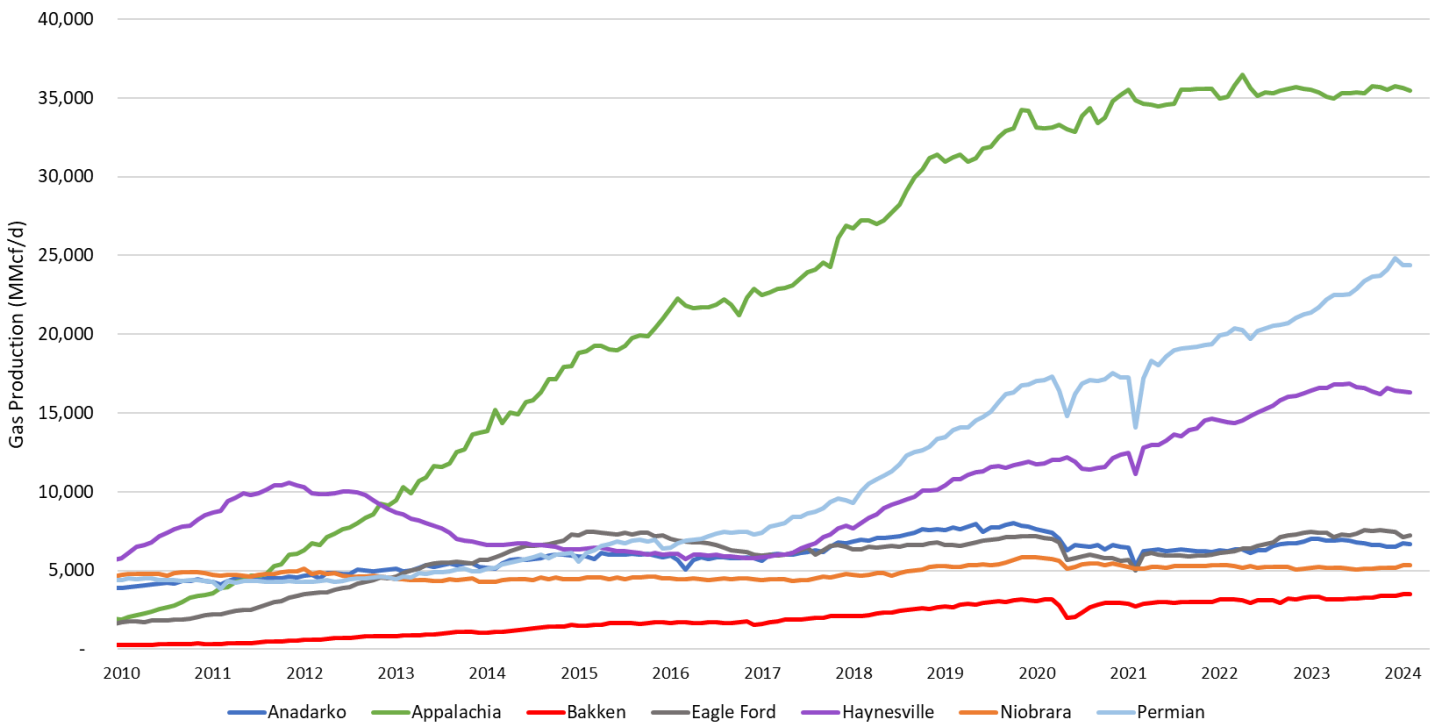
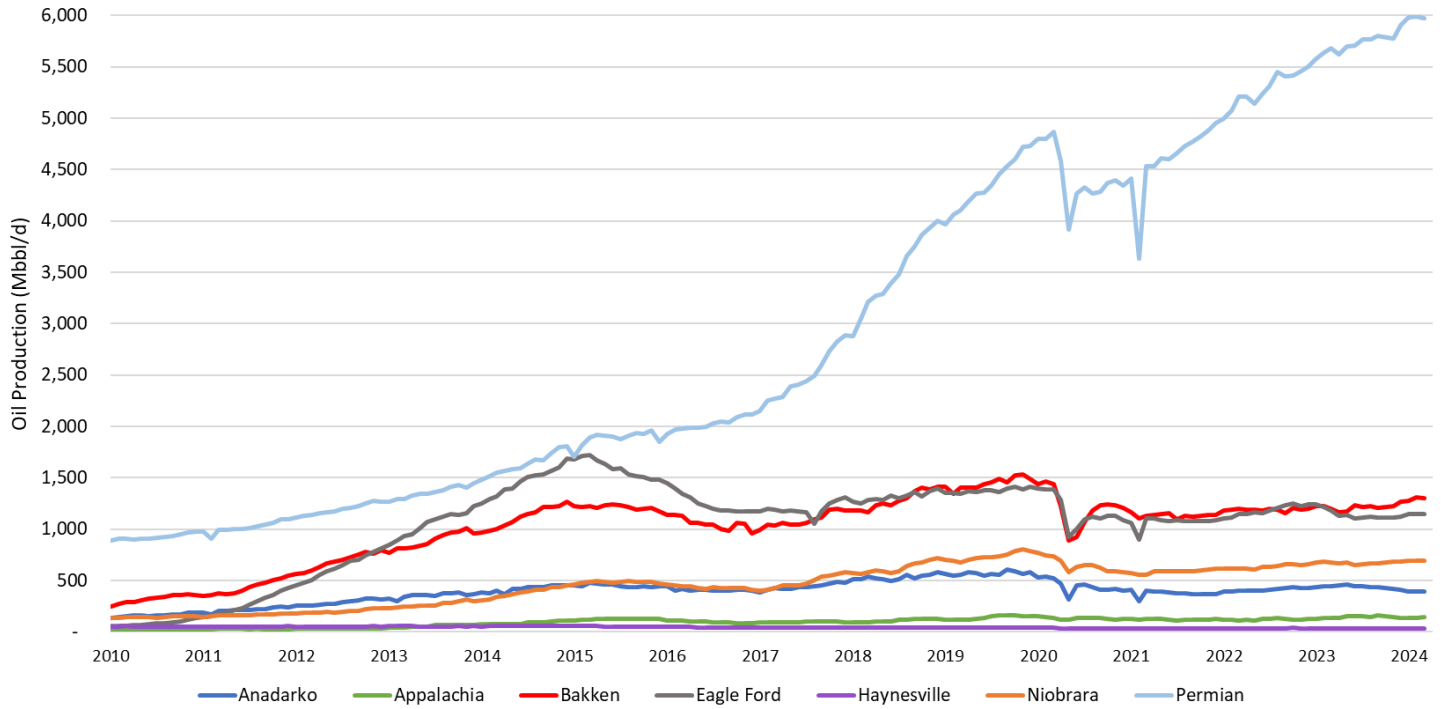
US DAILY CRUDE (MMbbl) & DRY NATURAL GAS PRODUCTION (MMcf)



*Source—Energy Information Administration, United States (EIA)



HISTORICAL PRODUCTION OF SELECTED US SHALE REGIONS



*Source—Energy Information Administration, United States (EIA)



UPCOMING EVENTS

January 2024

[TMA Annual Sporting Clays Event](#)

January 26

Houston, TX

February 2024

[NAPE Summit](#)

February 7-9

Houston, TX

[SPE Business Development A&D Symposium](#)

February 28

Houston, TX

March 2024

Big Energy! Gala 2024

March 2

Houston, TX

[5th Circuit Bankruptcy Bench-Bar Conference](#)

March 6-8

New Orleans, LA

[Tulsa Irish Festival](#)

March 8-10

Tulsa, OK

[ROCC US Men's Clay Court Championship](#)

March 30 - April 7

Houston, TX

*Denotes an Opportune Sponsored Event



ABOUT RALPH E. DAVIS ASSOCIATES

Ralph E. Davis Associates LLC (RED) is an industry-leading petroleum engineering and geosciences firm committed to satisfying the individual needs of clients. We accomplish this by holding ourselves to the highest standards of integrity and professionalism to deliver honest, direct and actionable insights to help clients achieve their strategic objectives. We distinguish ourselves by combining reservoir engineering, geoscience evaluation techniques and advanced data analytics with economic analyses to provide our clients with individual, customized solutions.

Banks, bondholders, private equity firms, financial institutions and law firms around the world trust in RED's diverse services and unrivaled upstream oil and gas expertise to deliver comprehensive solutions that help clients make informed decisions. We add value to every engagement by employing a team approach, leveraging Opportune LLP's experienced bench of experts in transactional due diligence, tax advisory, investment banking, restructuring and valuation.

We offer technical and economic analyses to deliver our clients a complete, independent, accurate and detailed assessment of the value of their assets. We apply a robust set of technical capabilities to assist our clients. Our capabilities include:

- Reservoir engineering and geosciences
- Economic forecasting and reporting
- Data analytics and geospatial analysis

KEY CONTACTS



Steve Hendrickson is the President of Ralph E. Davis Associates, an Opportune LLP company. Steve has over 35 years of professional leadership experience in the energy industry with a proven track record of adding value through acquisitions, development and operations. Steve is a licensed professional engineer in the state of Texas, and holds an M.S. in Finance from the University of Houston and a B.S. in Chemical Engineering from The University of Texas at Austin. He recently served as a board member of the Society of Petroleum Evaluation Engineers (SPEE) and is a registered FINRA representative.



John Beaird is Vice President of Ralph E. Davis Associates, an Opportune LLP company. John has 39 years of oil and gas management, reservoir engineering, and petroleum economics evaluation experience. Recent relevant experience includes the Permian, Western Gulf, Tx-La-Miss Salt, Mid-Continent, Denver-Julesburg, Wind River, Williston Basin, and Appalachian Basins. John is a registered Petroleum Engineer in the State of Texas and holds a B.S. in Petroleum Engineering from Louisiana Tech University. He is also an active member of the Society of Petroleum Evaluation Engineers (SPEE).



Yvonne Trujillo is a Senior Petroleum Engineer at Ralph E. Davis Associates, an Opportune LLP company. Yvonne has over 25 years experience in the oil and gas industry with extensive expertise in reserves engineering, SEC and PRMS/SPE reporting and economics and asset evaluation in conventional and unconventional reservoirs in the U.S. Lower 48. Yvonne earned a B.S. in Mechanical Engineering at Simon Bolivar University in Caracas, Venezuela and an M.S. in Petroleum Engineering at the University of Houston.



David Edwards is a Petroleum Engineer at Ralph E. Davis Associates, an Opportune LLP company. David has over three years of reserves engineering experience in conventional and unconventional reservoirs. Before RED, David was a Petroleum Engineer at a lower middle market A&D advisory firm where he handled the technical processes for marketed assets. He began his career with an operator in Dallas, where he contributed to its engineering, operations, and A&D teams. David holds an M.B.A. from The University of Texas Permian Basin and a B.S. in Petroleum Engineering from The University of Oklahoma.

