

Energy Tracker

Current Business and Legal Issues in the Oil and Gas Market

6/8/2021

Due to a technical issue, there will be no recording posted for today's call. We apologize for the inconvenience. Next week's call should be posted as normal. If you would like to attend future calls, or if you have any questions, please email energyevents@haynesboone.com.



Introduction



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This presentation is not required to be, and has not been, filed with the Commission. The Commodity Futures Trading Commission does not pass upon the adequacy or accuracy of this commodity trading advisor disclosure. Consequently, the commodity futures trading commission has not reviewed or approved this presentation.

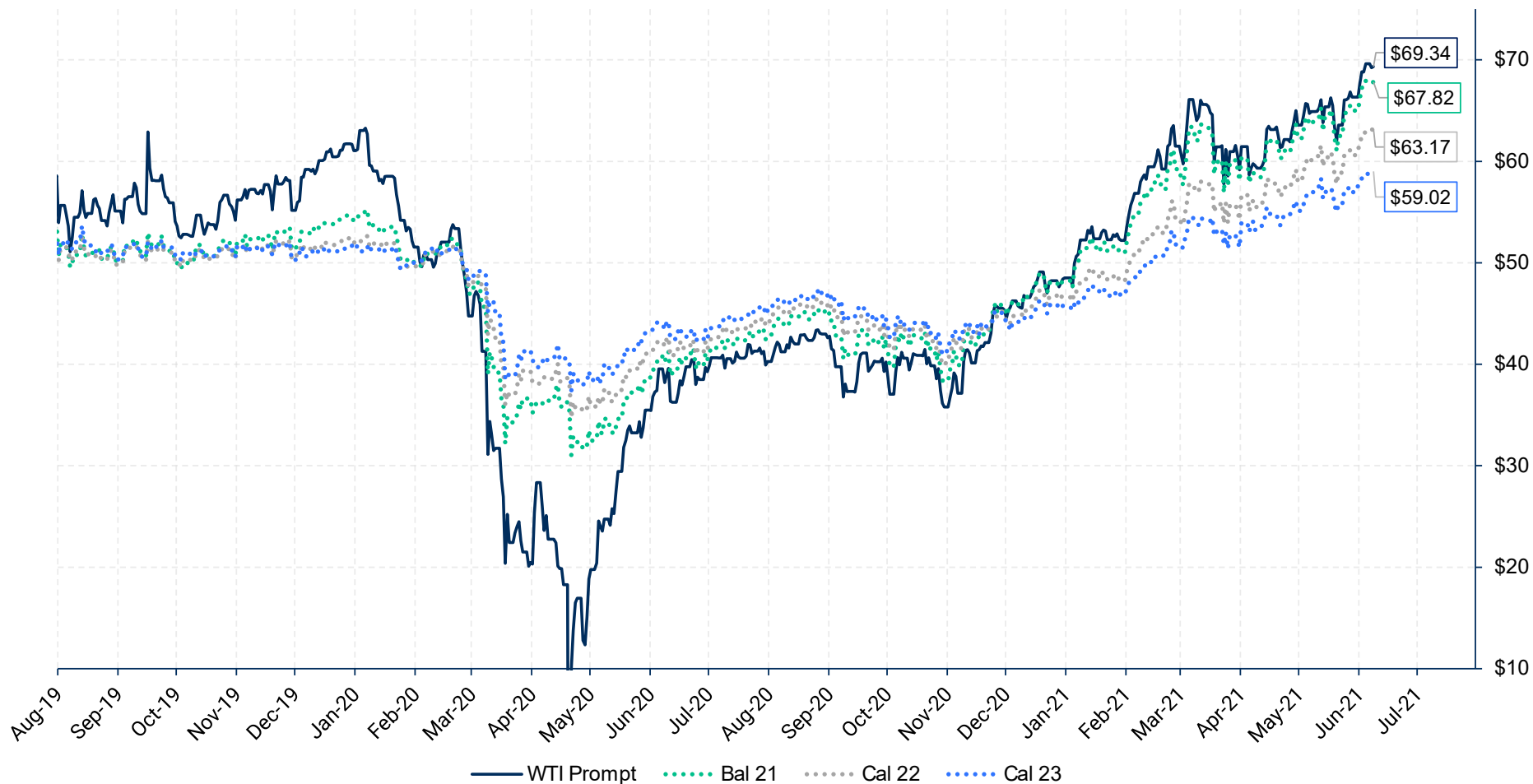
Crude Oil



Research

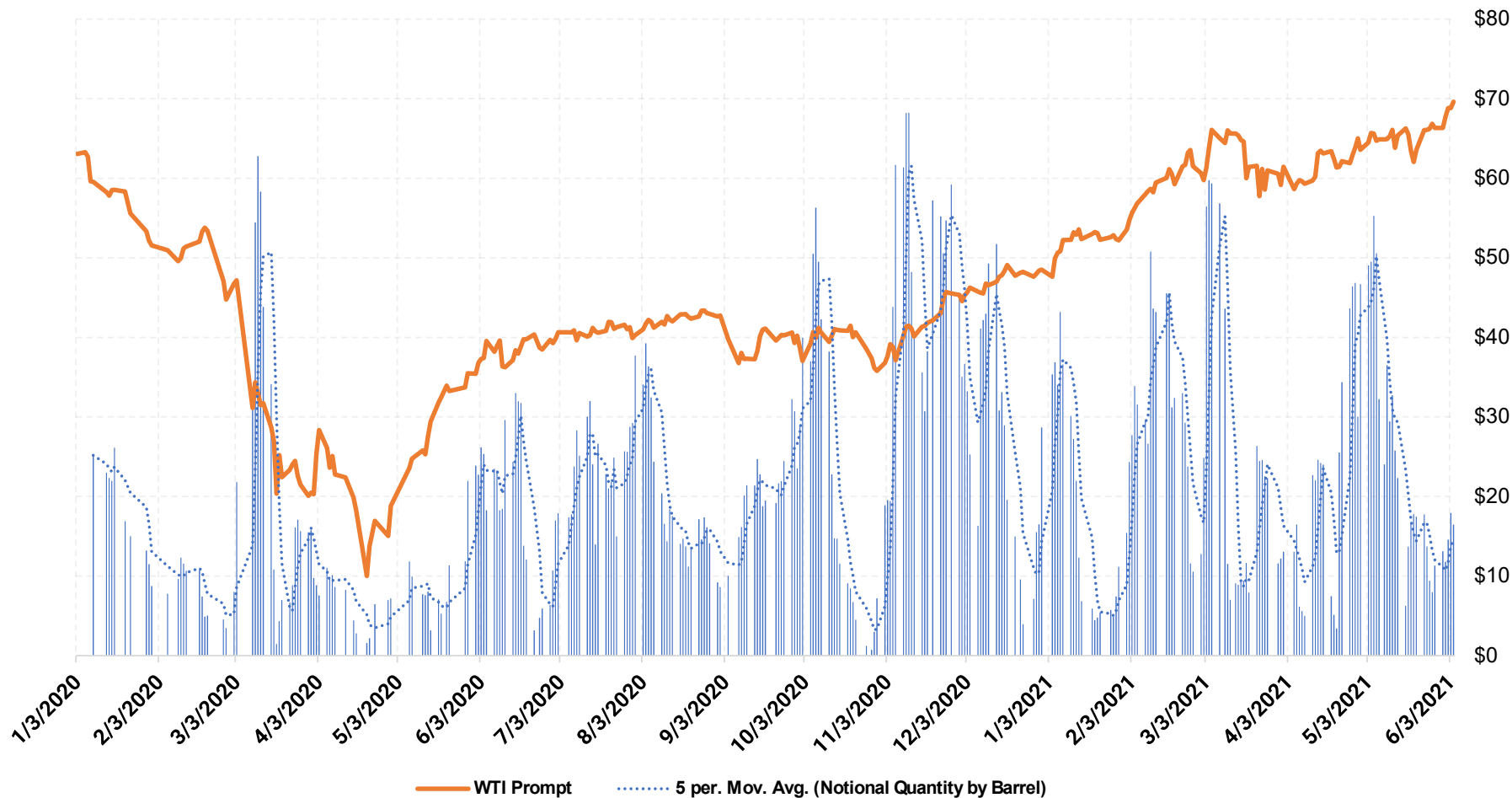
Fundamentals – Crude Oil

WTI Calendar Strips



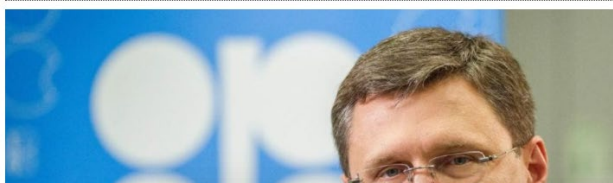
Fundamentals – Crude Oil

Smoothed AEGIS Hedging Volume vs Prompt WTI Futures Price



Fundamentals – Crude Oil

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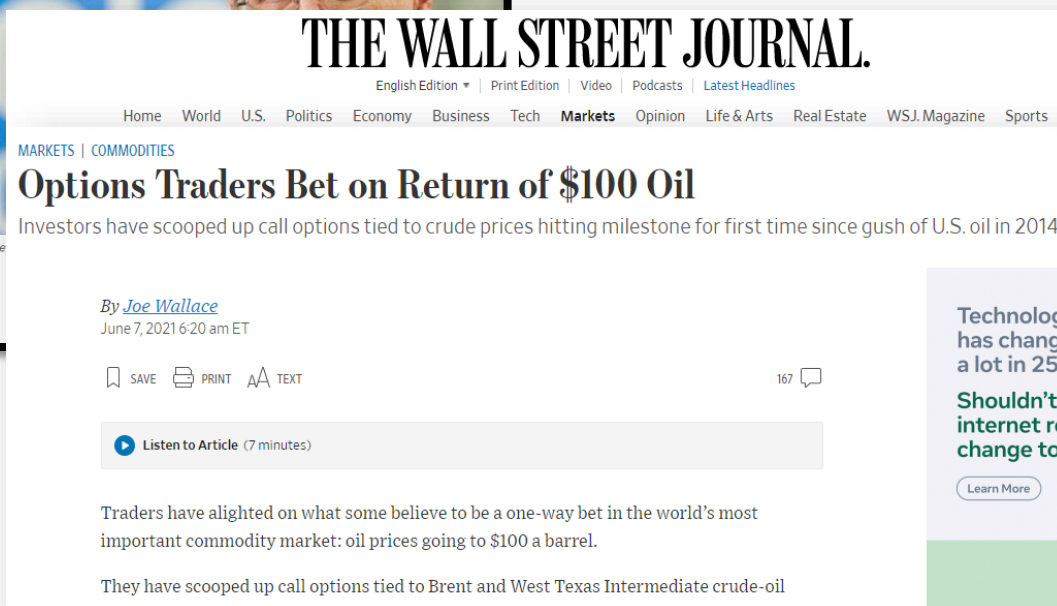


Oil To \$300?



BY TYLER DURDEN

FRIDAY, JUN 04, 2021 - 01:15 PM



iminalization of investing in higher oil production." – Bob McNally, "ferent" Bloomberg May 30, 2021

fuel supply projects and make no further final investment decisions ap to Net Zero by 2050

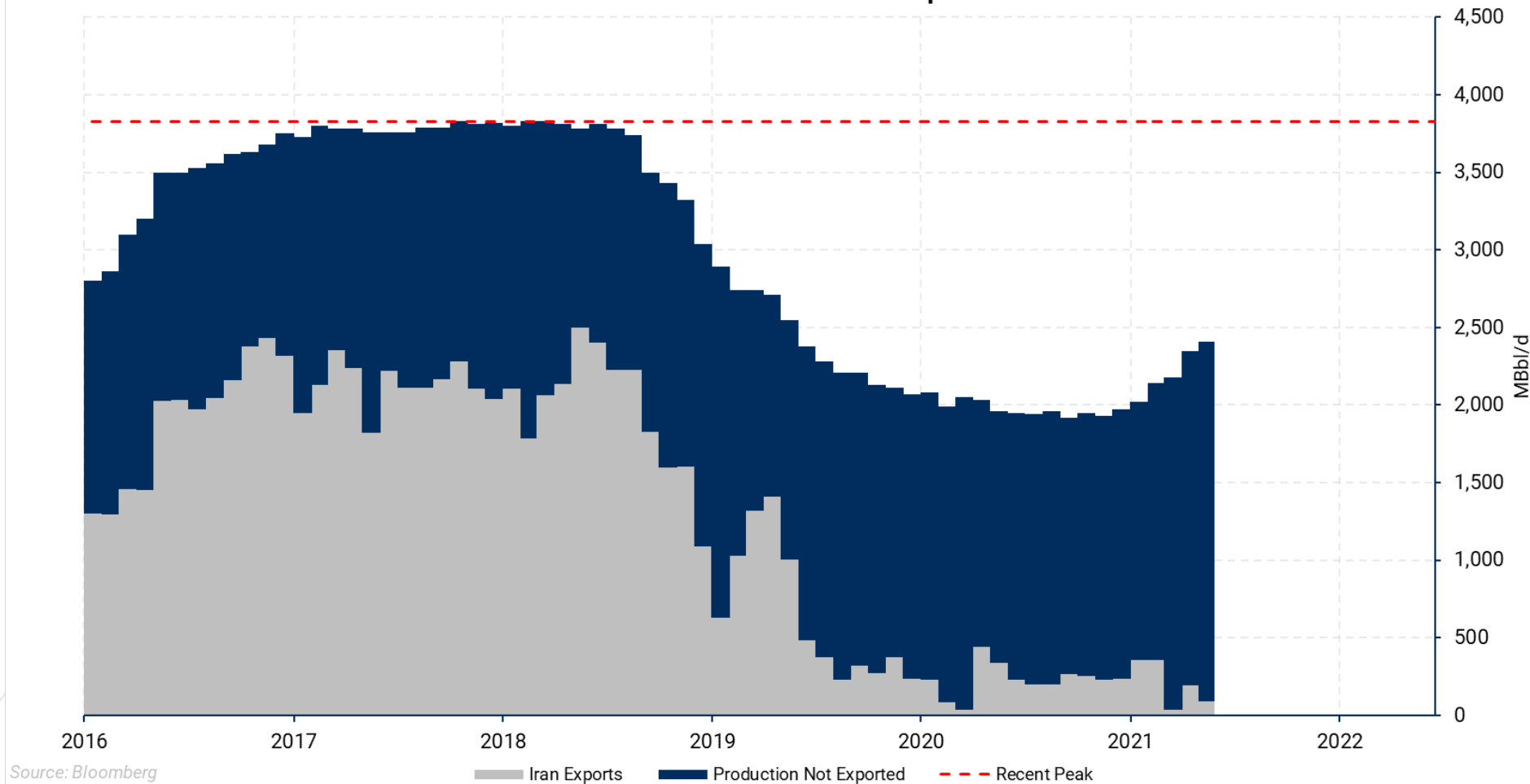
Technology has changed a lot in 25 years. Shouldn't internet regulation change too?

Learn More

Fundamentals – Crude Oil

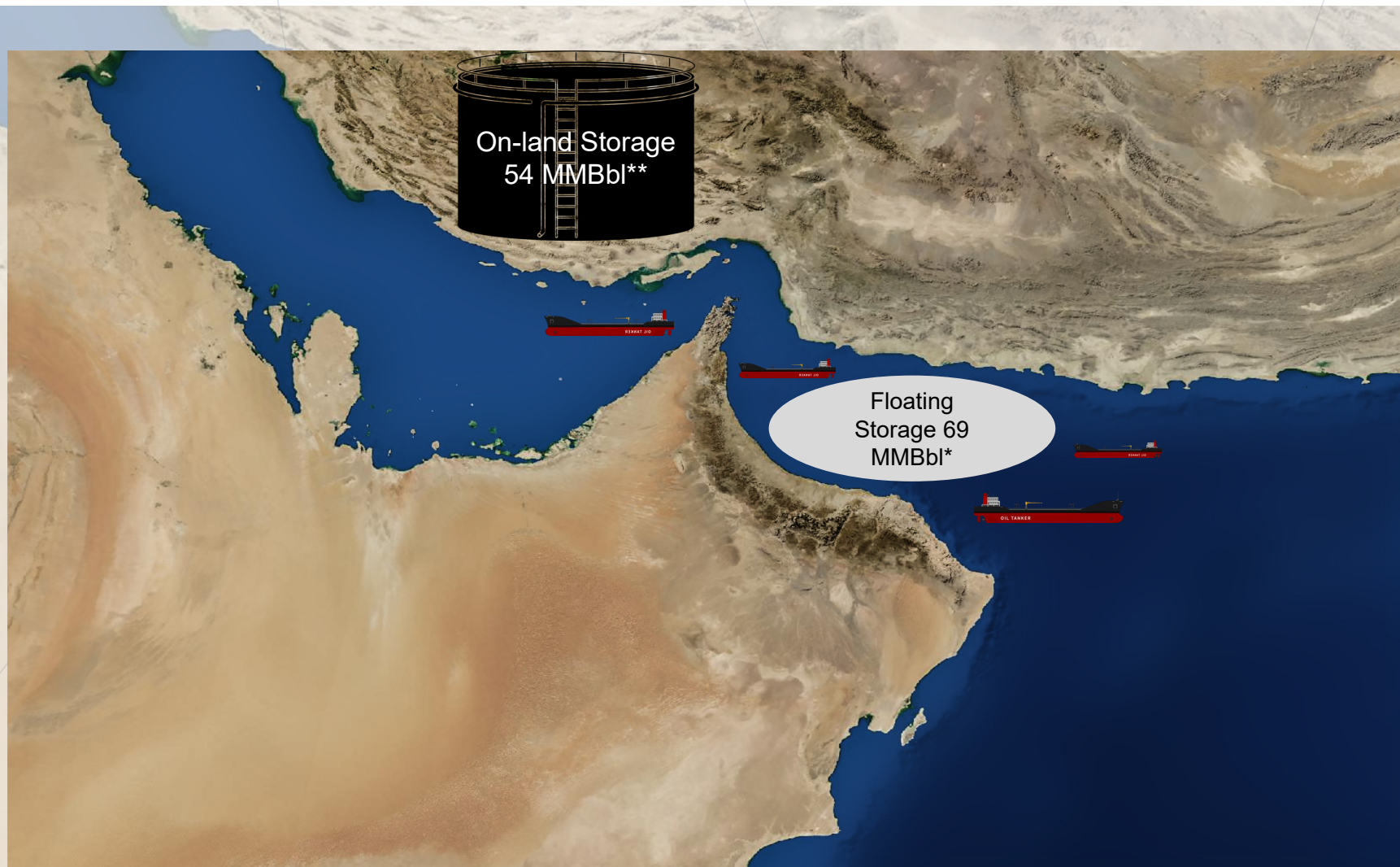
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Iranian Oil Production And Exports



Fundamentals – Crude Oil

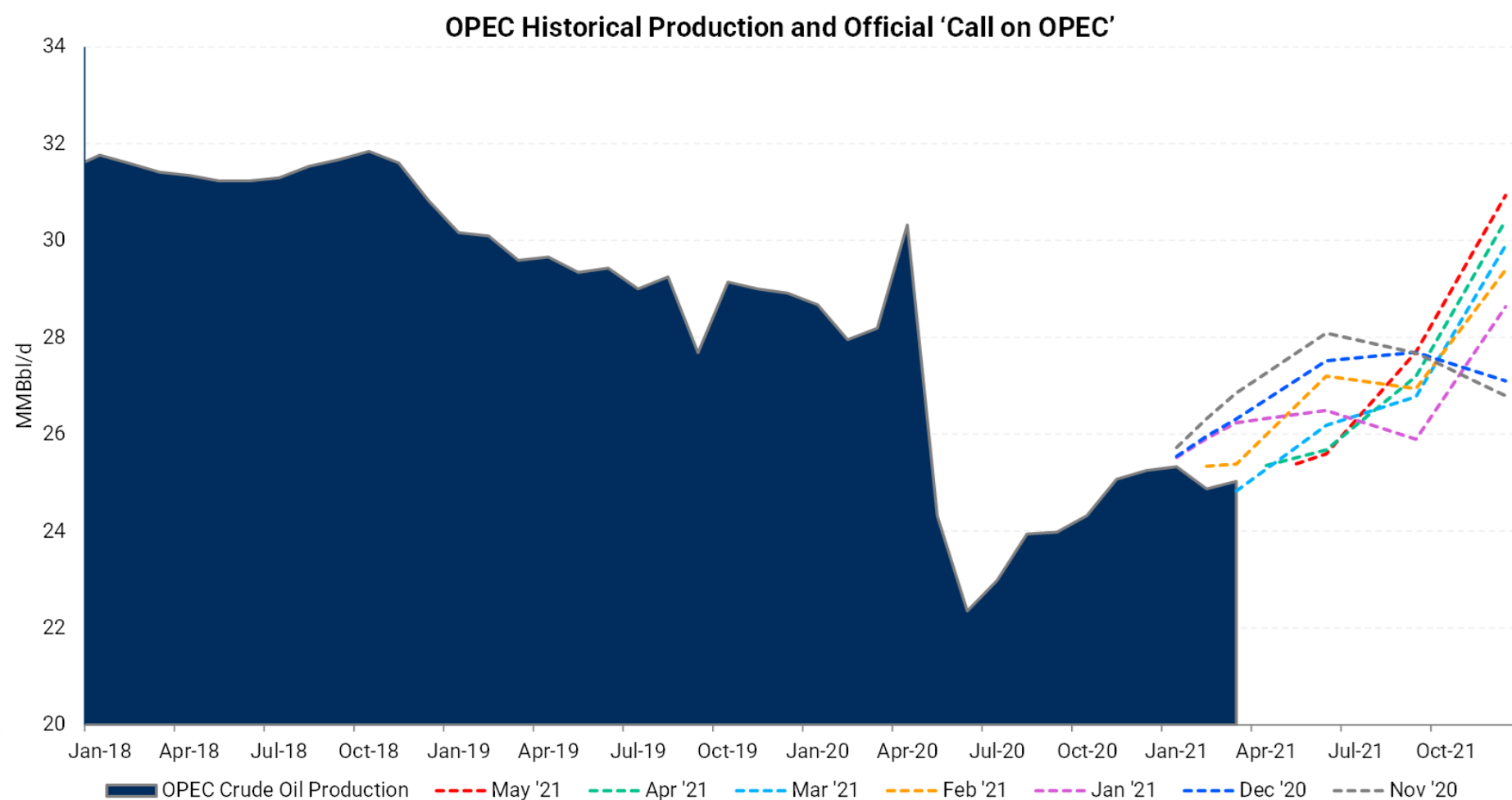
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Sources: Bloomberg, Gibson Shipbrokers*, Citigroup**

Fundamentals – Crude Oil

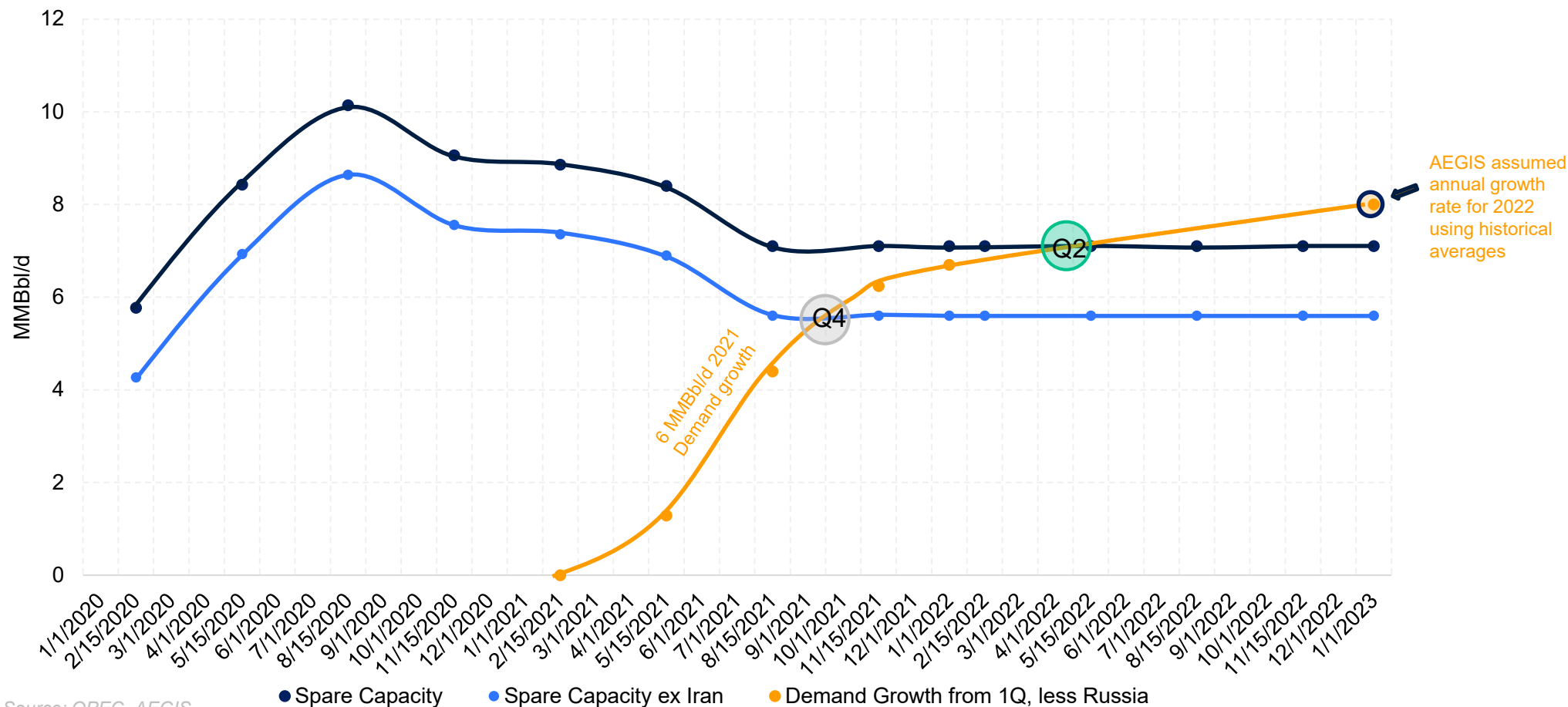
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Fundamentals – Crude Oil

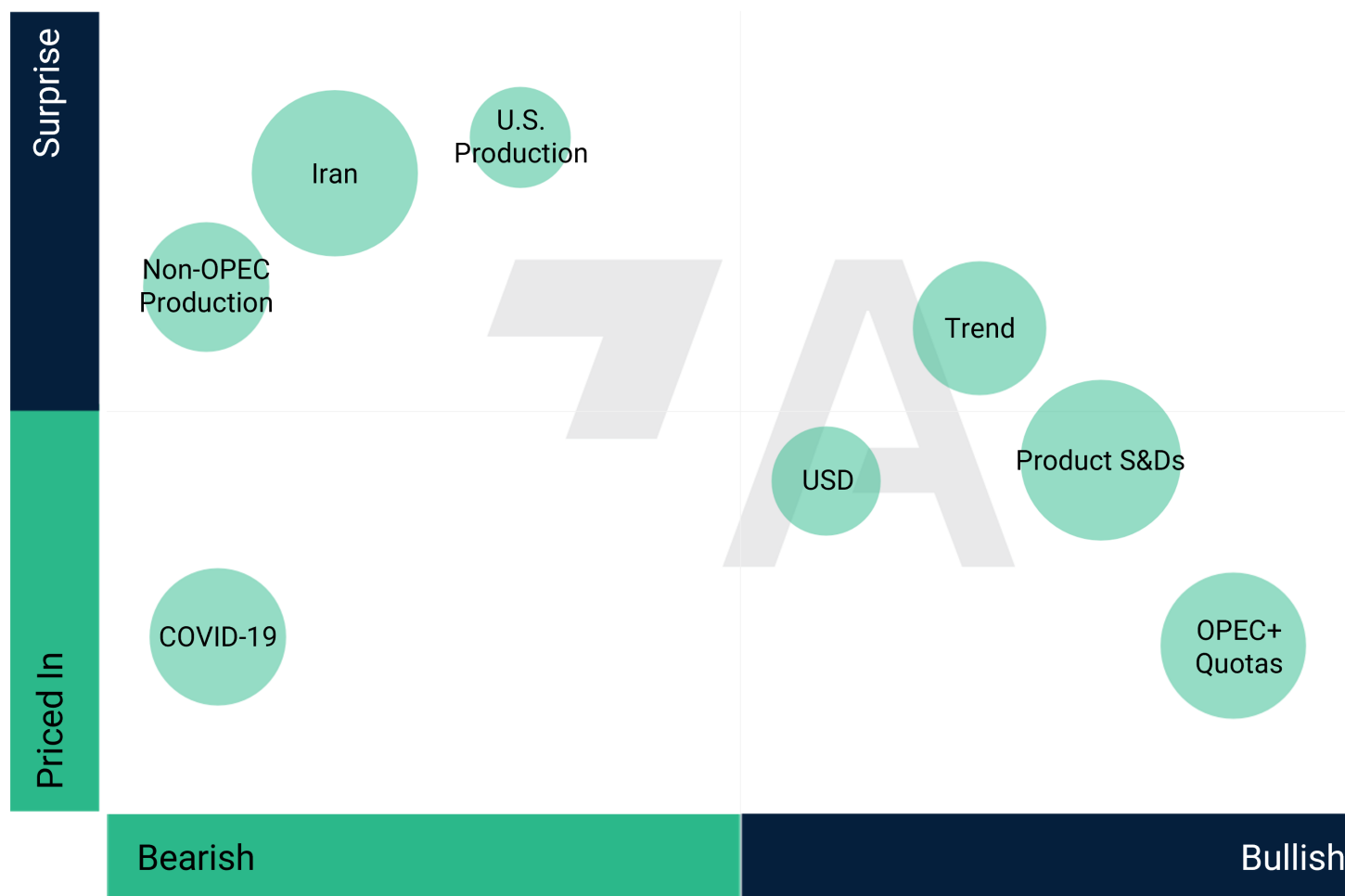
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OPEC Spare Capacity versus Incremental Demand



Fundamentals – Crude Oil

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- Janus Capital, Black Creek Capital and Starwood Capital
- Downstream/ refined product and upstream oil and gas at Chesapeake Energy



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Renewable Natural Gas - RNG

- What is RNG?
 - Renewable Natural Gas (RNG) is clean, affordable methane (CH₄/ natural gas) derived from the naturally occurring decomposition of organics matter, such as food waste, animal manure, wastewater sludge and trash.
 - Primary sources include agriculture (dairy, swine, poultry), municipal wastewater facilities and landfills.
 - Reliable waste-derived fuel that can be used to power homes, industry and vehicles.
 - RNG is the lowest-carbon fuel available and can often be net carbon-negative, meaning that more greenhouse gases are captured in producing the fuel than are emitted in consuming it, especially when it's used as an on-road transportation fuel.

Capturing the biogases emitted by organic wastes as they decompose, which are 50 percent to 60 percent methane, instead of venting into the air to reduce GHG emissions.

RNG is chemically similar to conventional fossil natural gas and can be used in all the same ways — cooking, heating, generating electricity, or as vehicle fuel. It slashes methane emissions from farms and turns urban organic waste streams into ultra-low-carbon energy.



Renewable Natural Gas - RNG

- Traditional Oil & Gas and Midstream in RNG
 - Traditional oil and gas companies are investing in RNG projects, including BP, Chevron, Enbridge, Marathon, Shell and Williams.
 - Energy familiarity.
 - Significant offset to carbon footprint.
 - Extend life of assets - existing natural gas distribution network can be used to deliver renewable, including hydrogen.
 - Secure source of Reformulated Fuels Standard (RFS) and Low-carbon Fuel Standards (LCFS) credits.
 - Lower Carbon Intensity (CI) energy supply for bio-diesel production and hydrogen.
 - Steam reformation source for green hydrogen.

Wide RNG adoption as a low-carbon alternative to gasoline and diesel for transportation that can not be electrified + solid case for pipeline expansion



Renewable Natural Gas - RNG

- Economics
 - Project costs include, gas rights/ feedstock, anerobic digester, gas processing and upgrading, pipeline and interconnect.
 - Policies to reduce the carbon intensity of electricity and transportation fuels are the primary drivers for RNG today and growing.
 - Federal and state programs, such as the Renewable Fuel Standard (RFS) and California's Low Carbon Fuel Standard (LCFS), provide a monetary credit to RNG that is used as a transportation fuel.
 - RFS Small Refinery Waivers.
 - More state adoption of LCFS.
 - Some states electric renewable portfolio standard (RPS) programs allow RNG to generate renewable energy credits (RECs) when used to produce electricity.
 - Growth of voluntary RNG purchase contracts for ESG.

Sample Dairy RNG \$/ mmbtu price stack = \$3.00 brown gas + \$18.00 RFS + \$80.00 LCFS



Renewable Natural Gas - RNG

- What to future holds
 - RNG role in Energy Transition 2.0 – reliable, on-demand green energy.
 - Lots of untapped resources - but challenges to make projects economically viable.
 - Project capital availability.
 - Improvements to technology efficiencies and lower cost.
 - Mobile RNG pipelines (trucking gas) and centralized interconnects.
 - RNG gas marketing to grow.
 - Voluntary RNG purchase contracts for progressive companies vs. just solar and wind

EnerCom will be hosting an RNG Panel at [The Oil and Gas Conference](#) on August 15-18, 2021, in Denver

Feel free to contact me with any questions on RNG at dgenovese@enercominc.com



Working Interest Securitization Transactions



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Oil and Gas Financing Structure Comparisons

Structure Types	RBL	VPP	Working Interest Securitization
Structural Considerations	- Asset-backed, senior secured loan that encumbers all the borrower's oil & gas reserves (not just PDPs) - Loan "renews" every six months under a borrowing base redetermination - Normally a revolver with commitments by a syndicate	- Grants the buyer a set volume of hydrocarbons per period for a specified term "True sale" asset conveyance under an ORRI carved out from lessee's working interest - One-time advance - Non-operating, non-expense bearing interest - Producer manages assets pursuant to a production and marketing agreement - Off balance sheet of seller but debt for tax purposes - Difficult to add assets over time	- SPV is conveyed a working interest in PDP reserves which secures notes - The SPV pays operating expenses, which may include capex for workovers - Operating expenses are senior and subject DSCR cushion - Typically one-time advance, but can allow for leveraging of additional assets in the future
Risk Profile	Hedge 50% (or more) of production on a rolling 24-month basis	- Hedge 100% of production - Producer is obligated to buy 100% of VPP volumes using a prescribed price formula ongoing proceeds from sale of VPP volumes are used to settle hedges and to pay principal and interest - Catch-up mechanism whereby shortfalls in volume are made up in the following month (adjusted for commodity price and interest)	- Hedge 75-85% of production - Production revenue flows through waterfall (hedges, LOE, opex, maintenance capex, P&A, interest, amortization, ECF, reserve funding, etc.) before excess distributed to sponsor

Oil and Gas Financing Structure Comparisons

Structure Types	RBL	VPP	Working Interest Securitization
Collateral	- First lien on substantially all assets (including PUD assets) - More focused on value of the assets	- VPP conveyed to buyer - Seller's retained interest is usually mortgaged to buyer to secure ongoing operating obligations	- First lien on substantially all assets within the securitization pool - More focused on the offtake/hedge provider - Usually PDPs only
Tenor	3 – 5 years	3 – 7 years	3 – 7 years (target of 5 – 7 years)
Commodity Pricing	Bank's forward curve	Market hedgeable price embedded in VPP price	Market hedgeable price for tenor
Financial Covenants	- Advance limited by Borrowing Base - Debit/EBITDAX - Current Ratio	None	- DSCR - Rapid amortization tied to financial metrics - LTV - Production volume targets
Leverage (Proceeds / Asset Value)	65% of PDP	65% to 80% of PDP - Sized based on production and expense coverage from VPP seller's retained interest	Based on DSCR (typically ~65%)

Oil and Gas Financing Structure Comparisons

Structure Types	RBL	VPP	Working Interest Securitization
Lenders	Banks and Bank Affiliates	- Rated: Broad investor base: insurance companies, etc. (Rated); - Unrated: Banks Affiliates, Specialty Finance	- Rated: Broad investor base: insurance companies, etc. - Unrated: Bank Affiliates, Specialty Finance
Credit Rating Considerations	Structure not individually rated, ratings based on borrower's rating (to the extent borrower is rated)	- Guidance is available as rating agencies have experience with structure - Can structure into multiple tranches with higher ratings senior to subordinate tranche	- Combine VPP based criteria with project finance analysis (potentially penalizing risk) - Requires increased due diligence and focuses on operating expenses / capex costs, utilizes independent engineer's reserve report

Q&A



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