PE for oil and gas in flux

-- **Katherine Wauters**, *staff reporter*

At a recent Houston Geological Society panel discussion, professionals in petroleum engineering, law, tax and finance offered advice on the path forward for the E&P industry. Several years into an energy downturn, the buy/drill/flip game is over, said participants at the February event, "The State of Private Equity in Oil and Gas."

Panelist **David Wishnow**, head of energy technology at Darcy Partners LLC, said, "The traditional game of punch a hole in the ground and flip it is done. We have clients today, who two years ago, would have thought, 'I'm not going to operate this asset. Why would I ever need production surface technology?' Today, they say, 'we really could use some sensors and flow meters.'"

Investors expect a high level of operating efficiency now more than ever.

Morrow

Panelist **Gabrielle Morrow**, senior vice president at Ryder Scott, said, "The reluctance by private equity to invest in deals is a loss of trust. If banks and investors trust operators to deliver volumes in a capital-efficient manner, year-in and year-out, then they're probably going to spend money."

Panelist **Chris Micsak**, director of private equity at Pickering Energy Partners LP, opined that while capital is tight, opportunities are available.

"There's all this private equity capital that's sitting there on the sidelines. That's a lot of dry powder," he said. "We're starting to see a lot of interesting opportunities moving toward the operating side, but you have to be at the table to play the game."

During the downturn, teams working in private equity (PE) have scaled back management and operating staffs. Panelist **Clark Sackschewsky** said management firms are slimming down to create more value. He is U.S. natural resources industry leader, tax market leader at BDO USA LLP.

"What we're starting to see is elimination of management and operating teams altogether," said Sackschewsky. "Why have 10 teams when one on the payroll creates greater value? That eliminates a whole level of overhead costs."

The "rightsizing" of private equity teams and oil and gas companies are not the only signs of consolidation. PE firms are considering options to merge companies within their investment portfolios despite obstacles in gaining agreement among shareholders and other parties.

Panelist **Glenn Reitman**, attorney at DLA Piper LLP, said, "The most interesting thing I'm hearing about, but haven't seen yet, is consolidation mergers among portfolio companies. There's a lot of talk about 'expect the unexpected,' because it makes sense from a value perspective."

ESG and carbon neutrality

The latter half of the panel discussion focused on environmental, social and governance (ESG) and fossil-fuel divestments. Some universities have moved their endowment funds out of oil and gas. Insurance companies, pension-fund managers and others have also divested.

PE firms are not divesting for the sake of ESG. However, shedding fossil-fuel investments is a near-term concern of the oil and gas financial community.

"North American E&P companies have a staggering level of debt maturing over the next five years, when they'll likely continue to face tight access to the credit markets," said Moody's Investor Service in February.

Ethical investing, carbon neutrality

"Investors are constantly looking at renewables and other opportunities," said Morrow. "If our industry had a better image, then PE managers might be more willing to invest."

Oil and gas companies support ESG issues, for instance, by buying carbon credits to claim carbon neutrality. Morrow said that the Society of Petroleum Engineers has begun to create awareness of environmental sustainability programs.

Oil not going anywhere

Morrow compared the longevity and economics of oil and gas to other energy sources. "Oil and gas is not going anywhere, not by a long shot," she said.

"To say that solar and wind are going to take over oil and gas doesn't make sense. As for BTUs, solar and wind don't come close," said Morrow.

Oil and gas comprise about 55 percent of global energy sources today, states the latest outlook by Exxon Corp. By 2040, hydrocarbons will supply more than 50 percent of global energy — only a 5 percent drop relative to all energy sources.

Undeniably, investment will be required to arrest natural production declines and to meet demand.

Some prognosticators say that oil and gas will no longer be the dominant energy source by 2040, including BP. It claims that renewable energy will be the world's main power source in 20 years.

Morrow disagrees, "Oil and gas is going to be king for a long time."

Editor's Note: To access the Exxon report, go to https://corporate.exxonmobil.com/Energy-and-environment/Looking-forward/Outlook-for-Energy/Outlook-for-Energy-A-perspective-to-2040. ***Mark Hamzat O. Erogbogbo*** *at Mark@ProsperoOG.com coordinated and produced the HGS event.*

Juniors fall short in meeting production forecasts

Large and midsized public oil and gas companies in Canada are doing a better job of meeting production forecasts than juniors, according 2018 year-end reconciliations. The Alberta Securities Commission published those and other results in its latest Oil & Gas Review.

Senior public issuers slightly overestimated their technical reserves while intermediates slightly underestimated them. Juniors fell short of their forecasts at year-end with a negative 4-percent revision.

The results for seniors and juniors skewed negatively because of outliers. A senior disproportionately influenced its peer group's outcome 42 percent with downward revisions, while one junior accounted for 21 percent of the slide in its group.

Craig Burns, manager petroleum at the ASC, confirmed the disproportionate influences were negative. The published review did not address that.

In its analysis, the ASC summed gross proved-plus-probable reserves by group as disclosed under Item 4.1(2)(c) of Form 51-101F1. The review is at https://www.albertasecurities.com/-/media/ASC-Documents-part-1/Publications/2019_Oil_and_Gas_Review_Report.ashx.

Pipeline constraints in Canada and the rise of take-or-pay contracts have hurt juniors more than larger integrated companies, observers say.

Petroleum engineers join Ryder Scott

Yao Tian

Yao Tian joined the Houston office as a petroleum engineer in the reservoir simulation group. She is an expert in petrophysical interpretations of both conventional and unconventional reservoirs.

Most recently, Tian worked at Ryder Scott as a contractor on a multidisciplinary team estimating the reserves of offshore properties in China. Before that, she was a post-doctoral fellow at the University of Houston during 2016 to 2018.

At the university, Tian conducted petrophysical analyses of several oil and gas properties in the Upper Bakken shale and Upper Three Forks formation. She also used machine learning to select controls for regional production from 2,100 wells in the Bakken play.

Tian also helped develop and teach an unconventional resources engineering class in petrophysics.

Before that, she worked at Marathon Oil Corp. as a petrophysicist, starting in 2014. She conducted analyses of completion designs in the Eagle Ford shale play. Tian also performed studies of formations in the Austin chalk, Mowry shale, Woodford and Caney shales and Marchand and Medrano sandstones.

She has a BS degree in petroleum engineering from China University of Geosciences in Beijing, and MS and PhD degrees in petroleum engineering from Texas A&M University, where she also received a faculty award of excellence.

Tian wrote nine published technical papers while studying and working at the universities.

Steven Beck

Steven Beck joined the newly formed facilities engineering group as a project engineer - integrated services. His experience in process engineering comprises simulation and optimization for facilities, including midstream, pipelines, downstream and petrochemicals.

Beck also developed process data — from design and sensitivity through equipment sizing and cost estimation to financial analysis and investment profiles.

Before joining Ryder Scott, he was a consultant in advisory services at Kellogg, Brown & Root Inc. where he worked on due diligence and related strategy. In 2017, Beck was a process and production engineer at Westlake Chemical Corp. He analyzed cooling-water flows to streamline future design and optimize flow patterns at chemical facilities.

Before that, he worked at P.O.&G. Resources LP as an engineering analyst. Beck evaluated and optimized operating costs of fields in west Texas and Oklahoma.

He has a BS degree in chemical engineering from the University of Texas. Beck is a member of the American Institute of Chemical Engineers.