



When Oil Analysts Cannot Model the Endgame

Implications for Valuation, Damages and Financing

Oil prices have always been difficult to forecast. That is not new, and it is not the problem addressed here. What is new — and far more consequential — is that some oil-market analysts are now telling investors that they **“simply don’t know how to model the endgame.”**

The wording matters. They are not merely saying that their forecasts have unusually wide confidence intervals or that geopolitical events may cause prices to depart temporarily from their central case. They are saying that they cannot identify the market configuration toward which the oil sector is moving. They do not know which producers will remain able and willing to supply the marginal barrel, how trade flows will be reorganized, whether present disruptions will prove temporary or structural, or what combination of investment, sanctions, technology, demand and political intervention will eventually restore equilibrium.

Without an intelligible endgame, an oil-price forecast risks becoming a sequence of numbers without an economic destination.

This is a more radical form of uncertainty than ordinary price volatility. Conventional forecasting assumes that the structure of the market is sufficiently stable and asks what values should be assigned to variables within it: demand

growth, field decline, transportation costs, investment in new capacity or the responsiveness of supply to price. The present uncertainty reaches further. It concerns the model itself.

This distinction has direct consequences for the valuation of oil assets, the calculation of damages, the development of new projects and their financing. All require assumptions about future oil prices. But if the market’s endgame cannot be modeled with confidence, an analyst cannot simply select a conventional central case and surround it with sensitivities.

Damages Without a Stable Baseline

In a damages analysis, the question is not simply what an asset is worth today. It is what would probably have occurred absent the conduct found to be unlawful. That counterfactual must remain consistent with the tribunal’s legal findings, the information reasonably available at the valuation date and the economic relationships governing the claimant’s business.

Subsequent events do not invalidate a forecast merely because it proved wrong. Nor should hindsight be used selectively — invoked when it increases the claimed loss but rejected when it reveals risks already present at the valuation date. The relevant question is whether the forecast was reasonable when made and whether the claimed loss resulted from the wrongful act rather than from subsequent changes in the oil market.

When the endgame itself is unclear, reliance on a single deterministic counterfactual becomes more difficult to defend. The analysis may have to consider several coherent market configurations: normalization of trade and production, prolonged disruption, persistent scarcity, accelerated substitution or a reorganization of supply around new political and commercial blocs.

These cannot be merely different price lines pasted into an otherwise unchanged model. Oil prices, production volumes, transportation availability, refinery utilization, operating costs and demand are interconnected. A scenario combining sustained high prices with unaffected demand, unconstrained transportation and normal operating costs may be possible, but it requires an economic explanation. It cannot be assumed for convenience.

Prices Are Evidence, Not Answers

Spot prices may contain a scarcity premium produced by immediate dislocation. Extending that premium over the life of an asset can materially overstate value. Futures curves provide observable market evidence, but they are not pure forecasts of future spot prices. They also reflect inventories, liquidity, hedging demand, carrying costs and risk premia.

Long-term industry forecasts create the opposite danger. By assuming an eventual return to equilibrium, they may smooth away precisely the structural uncertainty that now matters most. Moving mechanically from an elevated spot price to an untroubled long-term consensus does not solve the endgame problem; it simply assumes it away.

The task is therefore not to choose mechanically among spot prices, futures curves and long-term forecasts. It is to explain what each measures and to construct a defensible path between current conditions and whatever longer-term market configuration is assumed.

Uncertainty must also be treated consistently. If specific risks are incorporated into probability-weighted cash flows, increasing the discount rate to capture the same risks counts them twice. Conversely, leaving cash flows unchanged and



burying every uncertainty in an unexplained discount-rate premium makes the analysis opaque. Where uncertainty concerns the amount or timing of cash flows, scenarios generally show its consequences more clearly.

The resulting valuation may appropriately be expressed as a range. A single number is not inherently superior when its apparent precision comes from the spreadsheet rather than the evidence.

Development and the Value of Waiting

The consequences may be still greater for new oil and gas developments. Existing production benefits immediately from high prices. A proposed project incurs costs today in exchange for revenues that may not begin for years.

Higher oil prices therefore do not necessarily make new projects easier to approve. If those prices are perceived as temporary or disruption-driven, they may disappear before production begins. Meanwhile, drilling, construction, equipment and financing costs may already have risen.

Large energy investments are also substantially irreversible. Once capital is committed to a field, refinery or pipeline, much of it cannot be recovered or readily transferred to another use. Under such conditions, waiting has value. Management preserves the option to invest after uncertainty has diminished. The investment threshold can consequently rise even when expected prices have increased.

Projects capable of being developed in phases, redirected toward alternative markets or protected through credible contractual arrangements will therefore be more attractive than projects whose viability depends on one particular oil-price endgame.



Financing Can Move in the Opposite Direction

Lenders confront the same uncertainty from a different position. Equity investors participate in upside; lenders are primarily concerned with repayment under adverse conditions. They focus not simply on expected cash flows, but on their durability.

Greater uncertainty may therefore produce more conservative price assumptions, stronger debt-service requirements, additional liquidity protections and greater scrutiny of transportation, construction and geopolitical risks.

The same market conditions can consequently increase the value of existing producing assets while reducing the bankability of new developments. There is no contradiction. Existing production captures current scarcity rents. A new project bears the risk that those rents disappear before its first barrel is sold, while its development and financing costs remain fixed.

What the Endgame Problem Changes

The inability to model the oil-market endgame does not make valuation impossible. It changes what a persuasive valuation must establish.

The analyst must identify the competing market structures, explain the mechanisms capable of producing each one, maintain consistency among prices, volumes, costs and transportation constraints and distinguish contemporaneous expectations from hindsight. Most importantly, the analyst must show which conclusions remain defensible when the assumed endgame changes.

A spreadsheet will always produce a value. The question is whether that value represents a reasoned view of the oil market — or merely disguises the fact that no one knows what market is being valued.

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