



CASE STUDY

Oil and Gas E&P: Hedge Book Analysis, Monetization and Restructuring

FTI Consulting (“FTI”) team performed the valuation and risk analyses of the derivatives hedging book of a US oil and natural gas E&P company and advised a bank lender of the company on the partial unwind and subsequent restructuring of the hedge book.

SITUATION

A large oil and gas E&P company (the “Company”) was facing bankruptcy due to depressed oil and natural gas prices. The Company engaged in oil and natural gas hedging through calendar swaps, basis swaps and complex option strategies.

A large bank creditor of the Company needed FTI’s assistance for the comprehensive analysis of the hedge book and its potential monetization before a bankruptcy filing. The creditor also engaged FTI in the review of a restructuring of the hedge portfolio during the bankruptcy process.

FTI efficiently integrated the hedge portfolio (about 1,400 derivatives) into FTI Quantum, where valuation and risk reporting was available in real-time.

OUR ROLE

The FTI team analyzed the hedge book to determine the protection it provided, forecasted monthly income, and calculated the impact from different pricing scenarios.

We reviewed the hedging contractual framework (e.g., trading documents such as ISDA, CSA), the set-off rights/liens structure of the hedge book and how they interacted with the credit and loan agreements.

We reviewed the monetization options and the associated realizable value, specifically the impact of an “early” monetization as a result of the Company monetizing the hedge book pre-maturely related to a restructuring.

The FTI team defined the parameters of the partial unwind of the hedge book prior the Chapter 11 filing and oversaw the trading execution of the unwind on behalf of our client.

We reviewed and advised our client on the restructuring of the outstanding hedge book proposed by the E&P company post-filing and analyzed the execution of this hedge restructuring.

OUR IMPACT



Leveraging our energy trading expertise and our proprietary Quantum technology, the FTI team provided insightful analyses only normally available on the commodity trading desks of large broker dealers or sophisticated commodity traders.



The FTI team structured and oversaw the partial unwind process of the hedge book on behalf of our client, ensuring adequate monetization of its value pre-filing.



We found that the hedge book was ineffective under large price downside scenarios, leading to an eventual credit enhancing restructuring of the hedge book post-filing.

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