



Making Sound Investment and Commercial Decisions in the Volatile Shale Oil Sector

BACKGROUND

A Fortune100 oil company had begun acreage acquisition in a prolific shale basin with the intention of establishing drilling rigs for oil and natural gas production. Having observed the accelerating rig count in the region, the company was concerned about impending midstream capacity constraints and financial impacts. Working with Fuld + Company, this company gained robust insight on the dynamics associated with new midstream infrastructure investment and development, enabling it to engage in productive commercial negotiations and make sound investment decisions.

CHALLENGE

Developing production in a dynamic shale oil basin, the client was confronted with significant gaps in midstream infrastructure and had concerns about natural gas gathering, processing, fractionation services, and oil and gas takeaway capacity. Given these constraints, the client was also concerned about how midstream operators would price existing midstream capacity and services given both the increasing scarcity and their need to fund significant infrastructure investment. If midstream services and capacity prices were to increase substantially, the client was concerned this would adversely impact the forecast profitability of their unconventional oil and gas drilling operations.

APPROACH

Obtaining visibility on the commercial intentions and infrastructure investment plans of midstream operators required access to not only midstream subject matter experts but those individuals knowledgeable about the specific strategies and tactics of the midstream operators active or likely to be active in the shale basin of interest. To meet this challenge, Fuld + Company engaged with leading experts and midstream operators at in-region industry events and investor conferences. We generated insight about the nature and timing of planned infrastructure investments of incumbent midstream players and about investments being contemplated by private equity and other financial players. Further, we produced analysis on emerging midstream services contract structures and on some innovative steps other oil and gas producers were taking to mitigate the financial leverage of midstream operators during this period of constrained capacity.

RESULT + BENEFITS

With greater visibility and analysis on infrastructure investment activity and on the commercial dynamics emerging between producers and midstream operators, our client had a clearer understanding of the potential financial risks it faced.

With this understanding, our client developed viable options for managing commercial and strategic relationships with midstream operators and explored its own opportunities for midstream infrastructure investment and acquisition.