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by Leslie Haines

Bridging the Gap: Leaping Between Your E&P Idea and the Capital You Need

Today, there is more capital available to oil and gas producers than at any time in the past two decades, but you have to know who has it, on what terms they will invest it and what they expect in return.

Producers continue to have strong access to commercial bank debt and, as bankers' price decks have gone up, they have become more aggressive, moving out on the curve to lend more money for proved undeveloped reserves (PUDs).

As energy matters have come to dominate the headlines, private equity firms devoted to energy investments have mushroomed in quantity. What's more, the amount of money they have raised in the past two years goes far beyond what was seen only a few years ago. It is not uncommon for a fund to raise \$1 billion or \$2 billion, and to commit to start-up E&P firms in amounts of as much as \$500 million—even if the start-up has no assets or cash flow yet.

According to Cosco Capital Management, at year-end 2006 there was some \$17 billion of private equity capital committed to the upstream and midstream space—but not yet spent. Unfortunately, these funds are looking for low- and medium-risk deals and are not apt to fund exploration or individual wells.

The biggest dilemma for producers and executives with start-up firms is to find the right match between the type of capital needed and its intended use. Do the E&P company and the money source agree on strategy, deal terms, the split of the equity stake and the timing of the final exit plan?

There are several new financial intermediary firms who are link between those with an idea to drill, acquire acreage or buy production, and those with the capital who are looking for a way to invest in oil and gas. They can help screen deals and make the introductions that can lead to a good match.

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In her remarks, Ms. Haines will provide an update on where the various capital sources stand and trends in deal terms. ■

Biographical Sketch

After being with *Oil and Gas Investor* magazine for more than 20 years, editor-in-chief LESLIE HAINES has learned a thing or two about accessing capital for E&P companies. She began writing for *Oil and Gas Investor*, Hart's flagship magazine, in 1985, and has been editor since 1992. She received the Unsell Award for Excellence in Petroleum Journalism from the Independent Petroleum Association of America (IPAA) at its annual meeting in 1992. Under her stewardship, the magazine won the prestigious Neal Award for Business Journalism Excellence in 2005. She is a past president and board member of the Houston Producers' Forum and is on the board of the Houston Energy Finance Group.



Ms. Haines began her journalism career in 1980 as a newspaper reporter in Williston, North Dakota. In 1982 she joined the Midland, Texas *Reporter-Telegram* as that paper's business and energy editor. She is a magna cum laude graduate of Keene State College in her native New Hampshire and spent her junior year at the Universite de Dijon in Dijon, France.