Chaparral Seeking Chapter 11 Protection, while Lilis Looking to Unload Permian Assets

Anadarko Basin-focused Chaparral Energy Inc. said Monday a voluntary bankruptcy protection plan is in the offing to reduce debt and continue operating.

The Oklahoma City-based independent, which filed Chapter 11 petitions in U.S. Bankruptcy Court for the District of Delaware, has a restructuring support agreement (RSA) with funded debt holders to equitize $300 million of existing obligations and receive $175 million to bolster liquidity. Chaparral also filed for bankruptcy in 2016. With creditor support, the restructuring should be “completed relatively quickly,” management said. Chaparral in May signaled it was facing restructuring as

Oil, Natural Gas Supply from Major U.S. Plays to Continue Falling in September, EIA Says

Oil and natural gas production from seven key U.S. onshore plays is set to decline in September, continuing a downtrend that began earlier this year, according to the latest Drilling Productivity Report (DPR) published Monday by the Energy Information Administration (EIA).

EIA expects oil production from the Anadarko, Appalachian, Denver Julesburg-Niobrara and Permian basins, as well as from the Bakken, Eagle Ford and Haynesville shales, to decline by a combined 19,000 b/d from August to September. Total output is expected to remain at just over 7.5 million b/d. ...cont’ pg. 2

North Dakota Bakken Oil Production Seen Rising as Shut-ins Come Back Online

North Dakota’s oil production remains depressed, but output is expected to exceed 1 million b/d in the coming months, according to the Department of Mineral Resources (DMR).

During a webinar to discuss the latest statistics, DMR Director Lynn Helms said he expects rising oil prices should lead to more shut-in wells being brought online in the coming months.

“We’re pretty confident production will increase 150,000-200,000 b/d in July and another 200,000-300,000 b/d will be added in August,” he said. “Those months’ numbers should look a lot better than May and June.”

Nearly all of the curtailed U.S. onshore oil ...cont’ pg. 3

Notes: Table represents fixed-price delivered-to pipeline transactions in USD/MMBtu. These data are comprised of deals that NGI believe represent trading activity in the respective resource plays and may contain gas that was produced from conventional formations. * Denotes a tight sands formation. Volumes may not total due to rounding. For more information, please see NGI’s Shale Price Methodology.
Natural gas production from these seven regions is set to fall by 421 MMcf/d month/month, hovering at just over 79.2 Bcf/d, according to the agency. While the majority of plays are expected to show declines, the Bakken and Permian are projected to grow output from August to September, according to EIA. The agency expects Bakken oil production to increase by 7,000 b/d, with gas production rising by 15 MMcf/d; Permian oil output is expected to also grow 7,000 b/d, with gas output set to rise 25 MMcf/d.

Five of the seven plays are expected to post natural gas production declines in September, with EIA’s projections showing the Anadarko down 126 MMcf/d, Appalachia down 203 MMcf/d, the Eagle Ford down 56 MMcf/d, the Haynesville down 62 MMcf/d and the Denver Julesburg-Niobrara down 14 MMcf/d.

EIA’s DPR uses recent data on the total number of operating drilling rigs, estimates of drilling productivity and estimated changes in production from existing wells to project changes in oil and gas production for the seven key regions.

The Covid-19 pandemic helped to derail meetings is planned, with draft regulatory language expected in late fall.

Aside from the public health-related regulations, environmental groups also have complained about hydraulic fracturing. Drysdale said 48 permits have been approved for well stimulation, but only five jobs have been completed.

California Push for Oil, Gas Setbacks Stalls

Efforts to buffer California residents from oil and natural gas wells hit a logjam earlier this month in the legislature, leaving the issue to Gov. Gavin Newsom, who last year promised to fix what some view as a problem.

Assembly Bill 345 failed passage in the state Senate to establish minimum distances between wells and homes, playgrounds and schools. Originally proposed last year, the bill was criticized by among others the state’s largest producer, California Resources Corp., which earlier this summer sought voluntary bankruptcy protection.

Groups have pressured Newsom to declare a moratorium on new drilling and impose other restrictions to move more quickly to phase out fossil fuels.

The California Geologic Energy Management Division has an ongoing regulatory process to set rules for health and safety surrounding oil and gas extraction sites. Spokesperson Don Drysdale said another round of public meetings is planned, with draft regulatory language expected in late fall.

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what had been more than three years of continuous production growth from the basins tracked in the DPR report. The falling output tracked in EIA’s DPR dataset has coincided with a precipitous drop in U.S. drilling rigs driven by the economic impacts of coronavirus mitigation efforts.

Primarily driven by the Permian, total drilled-uncompleted (DUC) wells in the seven regions increased from June to July, up to 7,685 from 7,655, EIA said. The Permian added 40 DUCs to its total to reach 3,520 in July. The Bakken added six DUCs, rising to 902, while the Haynesville and Denver Julesburg-Niobrara each added one DUC month/month.

The Anadarko, Appalachia and Eagle Ford regions each depleted six DUCs from their respective backlogs month/month, EIA data show.

North Dakota Bakken Oil Production Seen Rising as Shut-ins Come Back Online
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volumes shut-in as Covid-19 hampered demand are set to return by the end of the third quarter amid stronger oil prices and a generally brighter market outlook, according to a recent analysis by Rystad Energy.

Still, prices need to improve above the current price of around $42/bbl-plus, he said. Completion...cont’pg 4
crews also need to “go after” the state’s 900 drilled but uncompleted wells, aka DUCs. Otherwise, the potential improvement in output “will only be temporary, and it won’t be sustainable.”

June, the most recent month with complete statistics, showed oil production up by about 31,000 b/d month/month at 26.7 million bbl (890,109 b/d) from 26.6 million bbl (859,362 b/d).

Natural gas production in June was 59.1 Bcf (1.97 Bcf/d), versus 59.7 Bcf (1.92 Bcf/d) in May.

North Dakota’s statewide gas capture rate was flat month/month in June at 89%. Bakken gas capture increased to 90%, while Fort Berthold Bakken averaged 85% during the month.

The statewide gas flared volume from May to June decreased 1,400 Mcf/d to 215,282 Mcf/d, while the percent flared decreased to 11%, according to DMR.

The increased oil production during June occurred on Fort Berthold, up about 120% from May. Operators are restricting drilling to the “core of the core,” Helms said. Eleven rigs were operating in the Bakken, down from 17 in May.

Citing layoffs in the oilpatch of up to 10,700, Helms said the state is putting a number of idle oilfield workers to work plugging and reclaiming abandoned…cont’ pg. 5

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### Breakout of REX Zn 3 Receipt Operating Capacity

<table>
<thead>
<tr>
<th>Receipt Point</th>
<th>Upper Capacity</th>
<th>Flows</th>
<th>% Cap Used</th>
<th>% Total Receipts</th>
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<tr>
<td>EOH GAS/REX CLAR MONROE</td>
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<td>MARKET STRAW IN SENE CANOLES</td>
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<td>EUREKA/HUNTER/REX CAMERON MONROE</td>
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<td><strong>59.0%</strong></td>
<td><strong>100.0%</strong></td>
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</table>

Source: Tallgrass Energy LP, NGI calculations. For more info and daily 10am ET updates of this chart, go to natgasintel.com/rextracker.
wells under the Bakken Restart program recently created. Fourteen workover rigs were placed in service last week, with another seven expected to be up and running this month.

“That’s 400 people that we put back to work,” with up to 600 or more expected to be back at work by Friday (Aug. 21), Helms said.

“We went from zero rigs plugging wells to 14 virtually overnight,” said Helms.

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it released rigs contracted to drill wells and halted completion activities following the historic plunge in demand in the wake of the coronavirus pandemic.

“While we have taken carefully measured and decisive action to address the challenges of 2020, the overall impact to the energy industry, including Chaparral, has been severe,” CEO Chuck Duginski said. “Therefore, after thorough analysis of our strategic options, we determined that a voluntary Chapter 11 filing with broad creditor support provides the best course for Chaparral and its stakeholders.

“A swift restructuring will right-size our balance sheet, improve our cost structure and best position Chaparral for the future. Importantly, we intend to maintain normal operations and meet all of our trade commitments timely and under their existing terms.”

As of last Friday (Aug. 14), Chaparral had about $32 million of cash on hand, considered sufficient to maintain “normal operations and meet its other financial commitments throughout the Chapter 11 restructuring period.”

The company plans to continue to pay wages and benefits, make royalty/interest payments and pay suppliers/vendors. Additionally, Chaparral has terminated all outstanding derivative contracts, with proceeds from the early termination totaling $28.2 million. The company used $24 million to pay down debt to $188.5 million.

Davis, Polk & Wardwell LLP is acting as legal counsel, while Rothschild & Co and Intrepid Partners LLC are acting as investment bankers; Opportune LLP

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is financial adviser. Sidley Austin LLP is acting as legal counsel to the board.

Meanwhile, Permian Basin pure-play Lilis Energy, which filed for protection in June with an RSA in hand, said entities affiliated with potential sponsor Värde Partners have declined to sponsor the reorganization.

The Fort Worth, TX-based independent said it plans to pursue buyers for most of the Permian assets, including in the Delaware sub-basin. The proposed bidding procedures were filed with the U.S. Bankruptcy Court for the Southern District of Texas, Houston Division. A hearing on selling the assets is set for Friday (Aug. 21).

“While the company is disappointed that the Värde Funds declined to pursue the new money investment contemplated by the RSA, we are confident there will be significant interest in the company’s highly contiguous block of approximately 16,000 net acres located in the deep and over-pressured portion of the Delaware Basin, including Winkler and Loving counties in Texas and Lea County in New Mexico,” CEO Joseph C. Daches said.

Vinson & Elkins LLP is serving as legal adviser, Barclays Capital is investment banker, and Opportune LLP is serving as restructuring adviser.