



**2009 Crude Oil & Natural Gas  
Hedging Study**

# Executive Summary

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The 2009 Hedging Study was conducted to reveal the current state of hedging amongst small to midsize independent crude oil and natural gas producers.

41% of study participants regularly hedge their crude oil and natural gas production, while 29% said they never hedge their production.

Only 13% of the participants are required to hedge by their lenders and/or investors.

The majority of the participants which indicated that they hedge on a regular basis stated that, on average, they hedge 51-71% of their current PDP (proved, developed, producing) volumes.

36% of the participants stated that their CEO or CFO makes their company's hedging decisions.

Swaps and collars are the most popular hedging instruments utilized amongst study participants.

Only 34% of the participants indicated that establishing stable and predictable cash flow is the most important goal of their hedging activities.

67% of the study participants said that they would characterize the success of their company's current and past hedging initiatives as good or excellent.

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# Introduction

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The crude oil and natural gas markets have experienced significant changes during the past two years. Between crude oil moving from \$146 to \$33 in less than five months and natural gas going from nearly \$14 to \$3 over the course of a year, the past eighteen months have been incredibly volatile to say the least. Adding insult to injury, the state of the capital markets has left many producers without access to much needed capital.

In these times of significant change and uncertainty, it is essential that oil and gas producers employ solid hedging and marketing strategies. These strategies will not only allow producers to survive the most challenging times, but will also allow them to excel in the best of times as well.

The primary focus of energy risk management as it relates to crude oil and natural gas producers is hedging. Consequently, this subject forms the basis of this study, which strives to analyze the current hedging practices and strategies of crude oil and natural gas producers.

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# Overview

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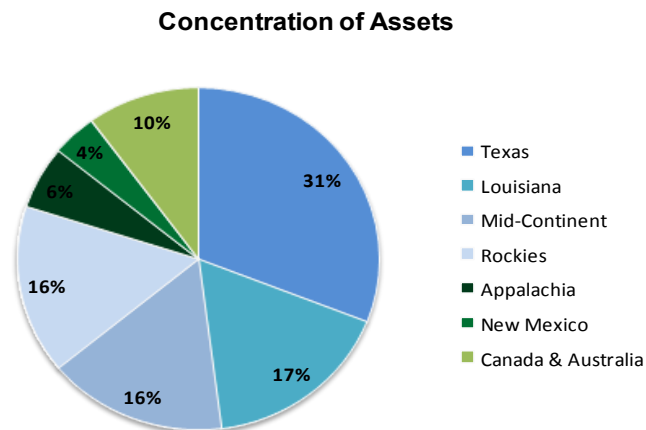
66% of the study participants indicated that their company is privately held.

53% of the participants indicated that they operate their assets, 13% stated that they are non-operators, while the remainder have both operated and non-operated assets.

37% indicated that they market their own production, 26% have outsourced their marketing to a third-party marketer, while the remainder employ a combination of both internal and external marketing.

Study participants indicated that their average monthly natural gas production is 512,000 MMbtu, average monthly crude oil production is 79,000 barrels and average monthly NGL production is 30,000 barrels.

Participants stated that the majority or a significant percentage of their assets are located in:



# Capital

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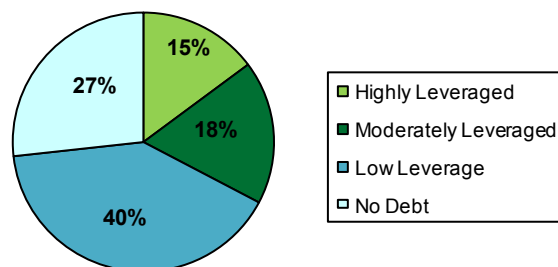
13% of respondents said they are required to hedge by their lenders or investors. The remainder are not required to hedge or are not currently required to hedge.

Of those required to hedge, 23% are required to have hedges extending 13-24 months, while 15% are required to have hedges extending 25-36 months. The remainder are required to hedge varying durations based on market conditions.

61% of the participants indicated they do not employ hedge Accounting, while 27% do employ hedge accounting. The remainder indicated that they were unaware if they employed hedge accounting.

Regarding their existing debt, the study participants indicated the Following:

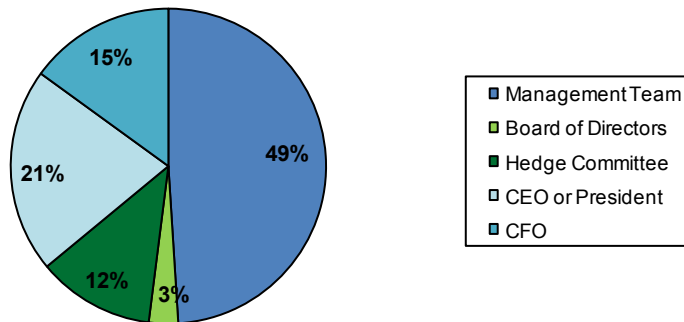
**Debt Snapshot**



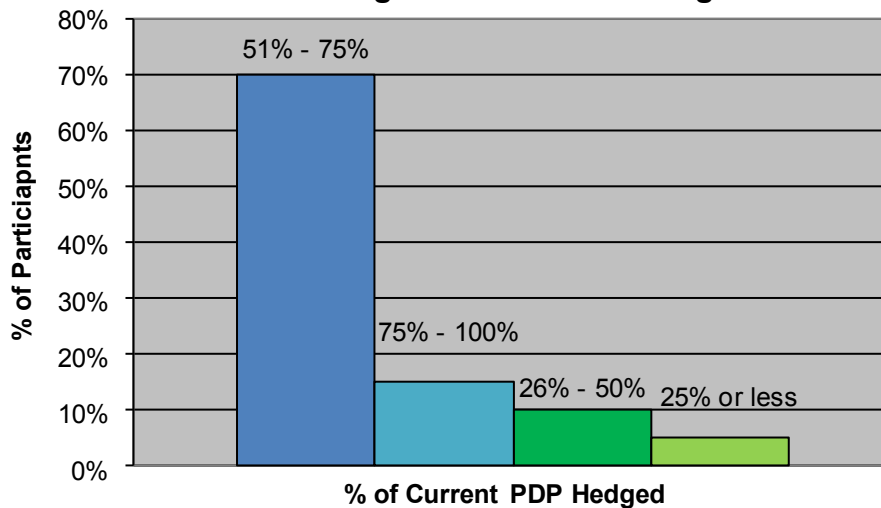
# Hedging

When asked who makes their company's hedging decisions, as well as what percentage of their existing production is currently hedged, the participants responded as indicated in the charts shown below.

**Hedging Decision Makers**



**Percentage of Production Hedged**



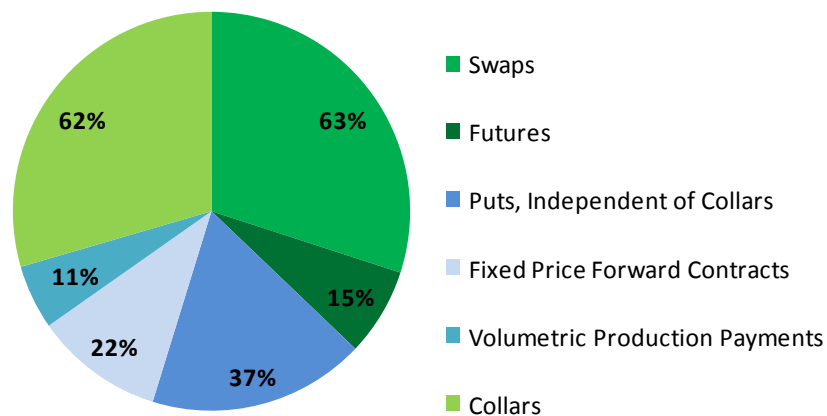
# Hedging Continued

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34% of the study participants indicated that stable and predicable cash flow is the most important aspect of their hedging activities, while 29% indicated that their primary hedging goal is to mitigate the impact of a significant price decline. The remainder indicated that the most important characteristic of their hedging activities is to maximize their borrowing base and/or to generate profits via speculative trades.

Participants stated that they are currently and/or have previously utilized the various hedging instruments as indicated in the chart shown below.

**Hedging Instruments Utilized by Participants**



# Hedging Success

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When asked how their company determines whether their hedging activities are/have been successful:

45% stated that establishing stable and predictable cash flows is their definition of success.

29% stated that their hedging activities are successful when their hedging strategies improve the bottom line.

10% stated that they view successful hedging as a means to obtaining additional access to capital.

The remainder indicated that they deem their hedging activities as successful when they are able to take advantage of abnormally high prices.

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# How to Improve Hedging

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When asked how they could most improve their company's hedging activities:

42% said utilizing hedging strategies that better reflect the company's risk tolerance, goals and objectives.

31% said their hedging would be most improved by optimizing their existing hedge positions.

23% said better execution and implementation of hedging strategies.

4% said their hedging activities would be most improved if they were able to implement strategies that would allow the use of mark-to-market accounting.

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# Sources of Information

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When participants were asked if their company receives hedging and/or marketing advice, data or information:

26% indicated that they receive this information from their bank

24% said they receive it from their marketing company

24% receive it from their hedging & risk management advisor.

11% receive from their futures broker or clearing firm.

13% said they do not receive any hedging or marketing advice or information from third-parties.

When asked what type of information they would like to receive as it relates to hedging and marketing, we received the following responses, amongst numerous others:

An explanation of the role speculators play in setting prices on a daily basis.

Advice on what hedging instruments to utilize in various market environments.

Descriptions of the methods and benefits of hedging.

Comparison of a risk management program versus specific one-off hedge transactions.

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# Methodology

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This report provides an overview of the current hedging practices of small to midsize crude oil and natural gas producers. The thirty-eight participants of the study were invited to participate via email and telephone. The study was conducted online during the Summer and Fall of 2009.

EnRisk Partners, LLC is a Houston based energy trading & risk management advisory firm that provides crude oil and natural gas producers with solutions to mitigate exposure to volatile energy prices, improve energy marketing decisions, optimize assets and maximize financial results. EnRisk Partners provides clients with an “in-house” energy hedging, risk management and trading team, allowing them to focus on their core business.

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