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PLS CAPITALMARKETS

Serving the marketplace with news, analysis and business opportunities

ENERGY FINANCE

Plains E&P to finance $6.1 billion in Gulf buys with debt

In a shift of focus, **Plains Exploration & Production** announced it was buying $6.1 billion in Gulf of Mexico producing properties including almost all of **BP's** non-core GOM assets—a 100% interests in the Horn Mountain field as well as the Marlin hub (Marlin, Dorado and King fields), its 50% stake in the Holstein field and non-op interests in Ram Powell and Diana Hoover (for $5.5 billion). The company also bought **Shell's** remaining 50% Holstein stake for $560 million. Altogether the assets produce 66,900 boepd net (BP assets—59,500 boepd, 84% oil and NGLs; Shell Holstein—7,400 boepd, 86% liquids). Plains said the assets would increase oil as a percentage of total sales from 61% this year to 89% in 2013. Oil production should hit 90% by 2015 vs. peers' current 60%.

It appears Plains will be able to fund the acquisitions without diluting equity.

Despite the large price tag, Plains (whose market cap has been trending in the $5.0 billion range—less than 83% of the combined price of the deals) believes it will recoup most of the price through 2013-2016 sales with a projected $4.0-5.0 billion in cumulative excess cash flow resulting from the buys.

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Energy & Exploration files IPO to fund $125MM Eaglebine buy

Privately held, Fort Worth-based **Energy & Exploration Partners** filed for an IPO with hopes of raising up to $275 million, in part to fund a $125 million Eaglebine acquisition from **Chesapeake.** The remainder will be used to fund a portion of $400 million in capex through year-end 2013 ($370 million for drilling, $26 million of additional leases and $4 million for 3D seismic). In addition to the IPO proceeds, the capex will be funded through cash flow, asset sales and borrowings.

President and CEO B. Hunt Pettit formed E&E in 2006. Pettit has over 16 years of oil and gas experience as an entrepreneur and landman. E&E began formal operations in 2008 and in early 2010 began Eagle Ford leasing primarily in McMullen and LaSalle Cos., Texas. It ultimately leased and sold over 125,000 acres to large independents including **Murphy** and **Comstock.**

E&E has played the Eagle Ford since 2010, also in Wolfcamp & Niobrara.

E&E's CFO Brian C. Nelson previously served as CFO of **ZaZa Energy** and **Great Western Oil & Gas** and as VP of finance at **ATP Oil & Gas.**

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Midstates raises $1.4 billion for Mississippian acquisition

Midstates Petroleum is raising a combined $1.425 billion in private debt, preferred convertible shares and revolver to fund its recently announced $650 million purchase of Oklahoma and Kansas Mississippian-focused **Eagle Energy Production.** Midstates said it would offer $600 million in 10.75% senior notes (upsized from $550 million) at par, due 2020 via private placement. Net proceeds will fund the $325 million cash portion of the acquisition and related expenses, general corporate purposes and repaying some of its revolver.

Midstates already got $500 million in financing from BofA, Goldman & others.

The company's resulting pro-forma long-term debt of ~$752 million if the revolver were not paid down would be a noteworthy 395% increase vs. Q2's ~$152 million. If Midstates fully pays down its revolver, resulting long-term debt would be $448 million, 195% higher than Q2. The debt placement is not conditional on closure of the Eagle Energy deal.

Prior to announcing the debt issuance, Midstates announced $500 million in committed financing from **BofA Merrill Lynch, SunTrust, Goldman Sachs** and **Morgan Stanley.**

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Blackstone closes inaugural $2.5 billion energy only fund

Blackstone, the world's largest private equity firm, announced the final closing of its **Blackstone Energy Partners** fund on September 5 at $2.5 billion, 25% above the fund's original $2.0 billion minimum target. Fund CEO and Blackstone global head of energy David Foley said Blackstone was happy with the fund's warm reception in what he called "an otherwise difficult fundraising environment"

Blackstone's energy investments have generated an impressive net IRR of 37%.

and said the Blackstone team's differentiated strategy was continuing to generate attractive investment opportunities.

BEP is Blackstone's first dedicated energy focused fund and will invest in control and control-oriented energy and natural resource sectors globally, including oil and gas E&P, midstream, services, refining, power generation, renewables, metals, minerals and timber.

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Top five stock winners & losers

BPZ Resources shares are up 28% over the last month, supported by news of arrival of a key drilling platform offshore northwest Peru for the company's drilling efforts in Corvina field.

Energy Partners changed its name to **EPL Oil & Gas,** but is up 22% over the past month on more than just a fresh coat of paint. **Brean Murray** initiated coverage with a Buy rating, saying **McMoran's** imminent Davy Jones shelf test results will likely have implications for the company, as the play probably extends into its East Bay assets. Brean also likes its low debt level of $4.50/boe proved (nearly half that of peers), comparatively low infrastructure abandonment liabilities and 38% proved developed but not producing reserves, which should help maintain production. Subsequently, investors reacted positively to EPL's $550 million acquisition of certain **Hilcorp** shallow GOM assets, which produce ~10,000 boepd (50% oil) and nearly double the company's proved reserves.

EPL got boosts from McMoran's Davy Jones & a Hilcorp asset buy.

The market rewarded **QEP** with a 17% bump during the past month for its $1.38 billion Bakken buy (see pg. 5 for details) and related oily production push – the properties produce 10,500 boepd with 81% oil. But shares didn't really take off until QEP announced $650 million in debt to help fund the buy. The kicker appeared to be a coverage initiation by **BMO Capital Markets** at Outperform with a $35/share price target (~10% above recent prices), with analyst Dan McSpirit saying the full impact of the deal was not yet factored into share prices and company profitability might be improving faster than the market appears to expect.

Yield investors punished dividend-cutting royalty trusts.

On the downside, concerns regarding dividend cuts in the royalty trust segment had major ripple effects for **BP Prudhoe Bay Royalty Trust,** knocking shares down over 29% peak-to-trough before becoming oversold and recovering for a 20% overall monthly decline. Dividend cutters include **Hugoton Royalty Trust, San Juan Basin Royalty Trust, Cross Timbers Royalty Trust** and **Dominion Resources Black Warrior Trust.**

A fresh look at BPT revived old arguments that the trust was overvalued, and several analysts noted it was trading at a $2.33 billion market value but had only a ~$1.4 billion projected income stream. They argued that the hunt for yield was inflating share prices, and this time the market apparently agreed. The "yield crowd" reassessment of the segment dragged **Permian Basin Royalty Trust** and the aforementioned Cross Timbers and San Juan along with BPT into our top five upstream underperformers list.

Upstream Market Movers—Last 30 Days

Source: **Capital IQ**

	Company	Ticker	$/Share 8/20/12	$/Share 9/19/12	% Change
Top 5	BPZ Resources	BPZ	$2.38	$3.05	28%
	EPL Oil & Gas	EPL	$17.38	$21.12	22%
	Abraxas Petroleum	AXAS	$1.97	$2.38	21%
	Gulfport Petroleum	GPOR	$25.38	$30.28	19%
	QEP Resources	QEP	$27.36	$32.04	17%
Bottom 5	Permian Basin Royalty Trust	PBT	$19.30	$15.37	-20%
	BP Prudhoe Royalty Trust	BPT	$114.99	$92.36	-20%
	Cross Timbers Royalty Trust	CRT	$39.53	$32.33	-18%
	San Juan Basin Royalty Trust	SJT	$15.95	$13.64	-14%
	Crimson Exploration	CXPO	$5.02	$4.40	-12%

Note: Data includes public, US-based companies operating in the oil & gas space, limited to companies >$100MM market cap & >$1.00/share.

Capital Markets Briefs

• **for Barclays** noted that despite North American onshore drilling headwinds, most E&Ps in its coverage universe confirmed their 2012 capex plans in Q2. Barclays' mid-cap team thinks that segment has ample liquidity to weather anticipated H2 expenses, and several large-cap E&Ps actually increased their budgets for H2. Despite a YTD 5% rig count drop, the I-bank thinks longer laterals and more stages per well are offsetting that trend.

• **Bentek Energy** said Marcellus gas prices will trade at a significant discount to Henry Hub for years due to infrastructure lagging behind production growth. Bentek believes Tennessee zone 4-300 leg spot price will be $0.69/MMbtu below Henry Hub this summer and $0.22 lower this winter, improving somewhat to $0.59 below next summer and $0.17 next winter. For 2014, summer/winter discounts are expected to be $0.38/0.17.

Capital Markets News

Forest raises guidance, upsizes debt offering 66%

Forest Oil had a trio of recent announcements: improved H2 guidance, an upsized debt offering and a new CEO. H2 net sales volumes are expected to average 330-340 MMcfed (66% gas, 34% oil), up 3.0% vs. prior guidance of 320-330 MMcfed (67% gas, 33% oil). Additionally, Forest raised capex guidance for H2 by 25% ($50 million) from prior guidance of $240-260 million due to increased drilling efficiencies and a greater degree of non-op drilling activity than expected.

Higher capex likely means more Eagle Ford & non-op Hogshooter wells.

Forest's private senior note offering was upsized 66% to $500 million. The notes will be 7.5% senior notes due 2020 priced at par. A portion of the expected $490.2 million in net proceeds will fund a proposed 50% redemption of Forest's $600 million in outstanding 8.5% senior notes due 2014, while the remainder will reduce outstanding debt. Until such a redemption occurs, proceeds will reduce borrowings under the facility further or be used for general corporate purposes.

$500 million, 7.5% offering cuts interest rates 1% but ups debt by $200 million.

Finally, the company formalized Patrick R. McDonald as president and CEO effective immediately. McDonald has been interim CEO since taking the helm from Craig Clark in late June. **Wells Fargo** believes the retenion of MacDonald encourages Street take-out speculation to continue, as a new CEO would have likely brought a multi-year restructuring plan with him or her.

Chesapeake's $6.9 billion asset sales nearly reach goal

Chesapeake Energy has reached $13-14 billion or 86%, of its 2012 divestiture goal with the recent announcement of a net $6.9 billion in sales. Divestitures include sale of the vast majority of Chesapeake's Permian assets to **Shell, Chevron** and **EnerVest** for $3.3 billion; substantially all midstream assets via three transactions and an expected fourth with **Global Infrastructure Partners** and other companies for a combined $3.0 billion; and various non-core leasehold positions in the Utica and elsewhere for $600 million. A portion of proceeds will be used to fully repay Chesapeake's short-maturity $4.0 billion in term loans in Q4.

YTD divestitures are $11.6 billion.

The Permian assets sold at a discount to previous internal estimates of $5.0 billion and below some analyst expectations, but sold in line with consensus Street estimates according to **Wells Fargo.** Chesapeake is retaining 470,000 acres in the Midland Basin. At 90 MMcfd and 21,000 bpd of liquids in Q2, the divested assets accounted for 5.7% of total production and ~15% of liquids according to **Wunderlich's** Jason Wangler. Chesapeake said the retained Midland acres will eventually be sold or developed, but **JP Morgan** thinks Chesapeake would have divested them as well had buyers been interested.

Chesapeake hoped for $5.0 billion on a Permian sale but got $3.3 billion.

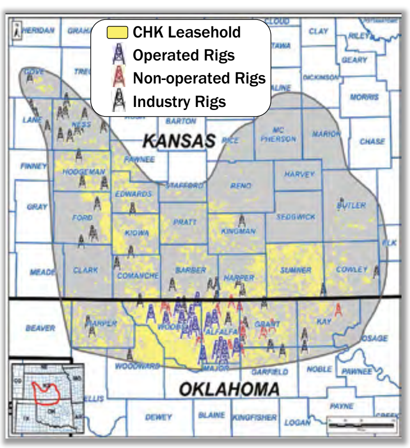
The midstream divestitures are expected to close before year's end. It appears Chesapeake upsold its midstream assets from a previously expected $2.0 billion and above the expectations of **Baird,** JP Morgan and **Tudor, Pickering, Holt & Co.**

Chesapeake has already received the bulk of proceeds for its Utica and miscellaneous deals, excluding its $125 million Eaglebine asset sale to **Energy & Exploration Partners** (see story on pg 1). Chesapeake will retain ~1.3 million net Utica acres with a cost basis of $200/net acre.

Shares dipped but recovered to pre-news closing price after one week.

Wells Fargo said Chesapeake's top priority was to pay off its $4.0 billiobn term loan and increase liquidity, which it has done. Chesapeake is selling such a high volume of assets to cut long-term debt from $14.3 billion in Q2 to $9.5 billion by year's end. **Jefferies** and **Goldman Sachs** advised Chesapeake on its Permian and midstream sales. **Sterne Agee's** Tim Rezvan said the largest part of another expected $1.5-2.5 billion in 2012 sales should be a Mississippian JV. Wells expects a dry gas Utica JV in 2013, when the company plans to raise another $4.2-5.0 billion.

Next Up? Chesapeake's Mississippi Lime JV



- CHK is largest leasehold owner in the play with ~2.0MM net acres
- Production for 2Q'12 averaged ~20,000boe/d, up 198% YOY & 56% sequentially
- ~39% of total Mississippi Lime production during 2 Q '12 was oil, 12% NGL & 49% natural gas
- CHK has drilled 158 horizontal producing wells since 2009 with attractive overall results
- Well costs in the Mississippi Lime are >50% less than in Bakken play, resulting in very strong rates of return
- Continue to pursue a JV and/or sale of a portion of its Mississippi Lime leasehold and expect to announce a transaction in the next few months
- Currently operating 18 rigs in the play

2 Q'12 Mississippi Lime Completion Highlights:

Well Name	County	Oil (bbls)	NGLs (bbls)	Gas (mmcf)	BOE/D
Smith 27-28-9 1H	Alfalfa	1,655	70	2.8	2,190
Loy Puffingarger 29-28-9 1H	Alfalfa	1,100	80	2.7	1,630
MWK 16-27-12 1H	Alfalfa	800	90	2.4	1,290

Source: Chesapeake September 12 Presentation via **PLS docFinder www.plsx.com/finder**

Energy & Exploration funds Chesapeake buy

Continued From Pg 1

E&E began a drill-and-exploit strategy at the beginning of 2012 and as of August has secured 43,012 net acres in three core areas—the Eagle Ford and Woodbine (i.e., the "Eaglebine") in East Texas (12,826 acres), the Wolfcamp in the Permian (13,254 acres) and the Niobrara in the DJ Basin of Colorado and Wyoming (16,931 acres). In September, E&E substantially beefed up its Eaglebine position in a $125 million deal with Chesapeake for 57,275 acres (~$2,200 per acre) with closing scheduled for October 31—extendable to December 14 with a $3.0 million penalty. The Chesapeake deal adds another 835 drilling locations to raise E&E's total inventory to 1,254 locations. E&E's playbook calls for drilling 68 nets wells through 2013—42 in the Eaglebine, 11 in the Wolfcamp and 15 in the Niobrara.

Current funding includes $40 million in private equity issued to 21 unidentified purchasers in late August. In June, E&E entered a $100 million senior secured line of credit with **Guggenheim Corporate Funding** at prime plus 10% maturing December 2014. As of September 2, E&E had $17.9 million drawn against a $25 million borrowing base from this facility.

E&E is already partnered with Halcon & Constellation in Eaglebine.

In its existing Eaglebine position, E&E is partnered with **Halcon Resources** and **Constellation Energy** and has established two AMIs conveying most of its operated interest. The first AMI garners ~$45 million from Halcon for a 65% WI covering ~46,000 net acres, plus a ~$30 million drilling carry covering two wells. A second Eaglebine AMI with Halcon gives E&E 20% WI optionality on Halcon buys and gives Halcon 80% optionality on E&E leases. E&E should also receive $34.3 million from Constellation for another 10% WI under the first AMI and 5% WI under the second.

Under the existing AMIs, E&E is required to offer Halcon and Constellation their pro-rata share of the $125 million Chesapeake Eaglebine acreage. If fully exercised, E&E would be left with 39,285 net acres (from the 57,725 being purchased from Chesapeake) and the purchase price net to E&E would be reduced accordingly.

E&E plans to trade on the NYSE under ENXP. **CanaccordGenuity** and **Johnson Rice & Co.** will lead the underwriting.

Energy & Exploration's Pro-Forma Acreage & Inventory

	Net Acres	Net Drilling Locations
Current Eaglebine		
Horizontal Woodbine/Eagle Ford	12,826	107
Vertical Lower Cretaceous	12,826	80
Total	**12,826**	**187**
Chesapeake Eaglebine Acquisition		
Horizontal Woodbine/Eagle Ford	57,275	477
Vertical Lower Cretaceous	57,275	358
Total	**57,275**	**835**
Total Eaglebine	**70,101**	**1,022**
Horizontal Wolfcamp	13,254	83
Horizontal Cline	13,254	83
Total Wolfcamp	**13,254**	**166**
Horizontal Niobrara	16,350	51
Vertical Codell/Niobrara	581	15
Total Niobrara	**16,931**	**66**
Total	**100,287**	**1,254**

Source: Energy & Exploration Partners SEC Filings

Private Equity & Debt

Denham Capital invests $200 million in Tall City

E&P newcomer **Tall City Exploration** garnered a $200 million equity commitment from **Denham Capital Management**, to be used for acquisition, exploration and development of unconventional Permian opportunities. Tall City CEO Mike Oestmann said the Permian is "only beginning to be exploited," and the company's team is well-positioned with local connections and experience. He noted the capital-intensive and technology-driven nature of development in the play necessitated financial backing. Denham managing director Jordan Marye said this was the company's first Permian E&P investment, and that it had been "looking for the right deal" for the past few years.

This is Denham's first E&P investment in the Permian.

Tall City was founded this year with ~5,000 net Permian acres. Oestmann was previously president of **LJean Resources**, and has Permian experience through **Whiting Petroleum** and **Pure Resources.** President Joe Magoto began at **Exxon,** was chief technical officer at **Parkman Whaling LP** and managing SVP at **Ryder Scott.** He has significant Wolfberry experience. The company is currently in talks with possible partners to increase opportunities and plans to begin drilling in the spring.

Tall City also raised $5.0 million from friends and family.

Midland-based Tall City also recently raised $5.0 million from **Henry Resources** and **Tall City Strategic Partners,** which is comprised of Tall City employees and Midland investors.

Denham is an energy and resources-focused private equity firm with over $7.3 billion of invested and committed capital. This investment comes at the high end of its normal $50-200 million investment range.

Private Equity & Debt Briefs

• **American Standard Energy** is selling 1,200 Eagle Ford acres to **Pentwater Capital Mangement** affiliate **Antler Bar Investments** for $16.4 million. Consideration includes a $2.75 million principal reduction for Pentwater-owned convertible notes, with the remainder consisting of liabilities transfer from American to the operator. Convertible note agreements were also amended to force note prepayment upon divestitures and give Pentwater two board seats at American.

• **Carlyle Group** is acquiring the North American power generation assets of **Goldman Sachs**-owned **Cogentrix Energy,** including three coal plants in Florida and Virginia, solar plants in California and Colorado and developing gas and renewable projects. Price was undisclosed, but will be funded through Carlyle's $1.4 billion **Carlyle Infrastructure Partners** fund. Closure is expected late 2012.

Capital Markets Briefs

• **EOG** said it plans $100-150 million in dry gas capex next year, down ~83% YOY. **Baird** notes this narrows EOG's 2013 funding gap considerably. EOG is also shifting 2013 capex from the Permian and Barnett to Bakken and Eagle Ford on weak NGL pricing. EOG said it will not sell more assets to fund spending next year if commodity prices hold. As insurance, the company increased 2013 oil hedges to 49,000 bopd from a prior 16,000 bopd.

• **Oppenheimer** reported MLPs had a disappointing August, relatively flat vs. July while the S&P rose 4.2% sequentially. Shares suffered from generally weak earnings results on depressed NGL pricing. MLPs are up 1.8% YTD, while the S&P is up 11.8%. However, of the 14 MLPs Oppenheimer tracks with over a year's history, 79% have increased distributions YOY. Oppy is long-term bullish with top midstream picks for **Enterprise Products Partners** and **Plains All American** and upstream picks for **EV Energy Partners** and **QR Energy**.

Capital Markets News

QEP's $1.38 billion Bakken buy boosts small regional players

QEP Resources forced analysts to whip out their calculators with its recent announcement that it would acquire 27,600 net Williston acres for $1.38 billion via two deals with **Helis Oil & Gas** and others. The deals didn't necessarily come as a surprise, as management had discussed wanting to increase its Bakken position. After factoring out value for 2P and PDP, **Wells Fargo** estimated QEP paid $14,331/undeveloped acre.

The deal kicked off takeover talk for pure-play Bakken operators. **Imperial Capital** initiated coverage of **Triangle Petroleum** on the news with an Outperform, citing the QEP deal as evidence smaller operators could have larger players licking their chops and suggesting Triangle and Oasis as the most likely targets. **Kodiak** and **Northern Oil & Gas** have also been mentioned as more attractive due to the deal.

QEP to issue $650 million in 5.25% senior notes due 2023.

The day after the August 23 QEP announcement, Kodiak and Triangle shares appeared to benefit the most, closing up 3.7% and 4.1%, respectively. Meanwhile, Oasis shares rose 1.8% and Northern was up 1.0%. As for the impact on QEP itself, the company is increasing overall net Williston acreage to 118,000 acres and believes net development costs for the new assets will be ~$1.59 billion. The company said the contiguous block will improve scale and drive operational efficiencies. QEP also said the purchase would increase full-year 2012 adjusted EBITDA guidance from $1.35-1.40 billion to $1.40-1.45 billion, production guidance from 305-310 Bcfe to 310-315 Bcfe and capex guidance from $1.45-1.50 billion to $1.50-1.55 billion.

Bakken producers Kodiak & Triangle saw shares rise on QEP's announcement.

QEP initially said it was funding the deal through its revolver and cash on hand, but subsequently announced a public $650 million, 5.25% senior note offering due 2023. The company made the offering contingent on completion of the transactions, and will use a portion of net proceeds to pay down its revolver in the interim. The new debt represents a 35% increase to Q2 long-term debt of $1.87 billion.

Number-crunching—

Wells Fargo says the deal gives "coveted" visibility on long-term liquids growth and could drive partial monetization of the company's midstream assets, probably via MLP, and should redirect investor focus on the company's growth story and cash flow. **Robert W. Baird** also suggested midstream monetization was likely, and values QEP's midstream assets at ~$2.5 billion based on $308 million in EBITDA and an 8x multiple.

Debt issuance increase likelihood of divestitures & a midstream monetization.

Other options for deleveraging, which Baird anticipates within six months of deal closure, include a western MidCon asset sale (Baird values at ~$1.0 billion) or a Pinedale royalty trust—QEP management noted plans to reduce its pro forma pre-offering debt/EBITDA ratio of 2.0-1.5. Regardless, prior to the new debt placement Baird believed QEP needed to raise $700-800 million to achieve its deleveraging goals and it will now likely increase that range.

Tudor, Pickering, Holt & Co. advised the sellers in QEP's acquisition. **JP Morgan, BMO, Deutsche Bank, Wells Fargo** and **Citigroup** are underwriting the debt offering.

At press time—

Exxon upped its Bakken position ~50% via a buy of $196,000 acres from Denbury for $1.6 billion cash plus asset swaps. Read more in the next **A&D Transactions.**

Private Equity & Debt

Marquez still at it: Venoco buyout amended & extended

Venoco provided an update on financing discussions for chairman Tim Marquez's $12.50/share, $750 million take-private efforts. Marquez's new offer consists of an 80% or $140 million increase to a proposed second lien Venoco term loan which would now total $315 million; a new Venoco first lien revolver against which the company would draw $100 million (up from an earlier announced $31 million); and a $60 million investor contribution (up $30 million from $30 million anticipated previously). All of these transactions would be structured to close simultaneously with closure of the merger and are contingent upon it.

Venoco upsized a proposed term loan 80% to $315 million.

In addition to generating $366 million in consideration to Venoco shareholders, Venoco would use $75 million in proceeds to pay off its existing revolver. The company eliminated plans to engage in an internal asset sale and $200 million VPP and repurchase a portion of Venoco's outstanding senior notes at par.

Venoco extended the financing deadline a fourth time from September 13 to October 5, while extending the "end date" beyond which either party can terminate deal talks from September 14 to October 8. That date was originally pulled from October 16 to the September deadline in an attempt to reduce deal uncertainty, according to Venoco chairman Rick Walker. According to Marquez, this latest round of extensions was meant to streamline the process and mitigate concerns some stakeholders expressed regarding the pre-amendment financing package. **JP Morgan** said the stakeholders were bondholders concerned Marquez would use VPP proceeds to finance the merger. Reducing the VPP eliminated their primary concern.

Quantum backs former Southwestern exec's new venture

Private equity firm **Quantum Energy Partners** announced the formation of **Vitruvian Exploration II LLC** alongside a $250 million equity commitment. Vitruvian II will focus on a diversified, early-stage unconventional asset portfolio.

The company is led by Richard Lane as CEO and John Thaeler as COO. Lane most recently served as president, CEO and chairman of the Vitruvian II's predecessor, **Vitruvian Exploration LLC** which pursued a similar strategy and had onshore operations including positions in West Virginia, Alabama and Mississippi. Prior to Vitruvian, he was with **Southwestern Energy** from 1998 to 2008 in a variety of management positions culminating as EVP and president of its E&P subsidiaries **SEECO** and **Southwestern Energy Production.**

Vitruvian II backed with $250 million for unconventional plays.

Thaeler was SVP at Southwestern's E&P subsidiaries, and led the discovery, exploration and development of the Fayetteville, as well as all exploration and new venture efforts. Prior to Southwestern, he spent 20 years with **Occidental Petroleum** in Africa, the Middle East, Latin America and the US. Much of Vitruvian's team will join Vitruvian II after working together and building unconventional resource value for four years.

Lane chose Quantum for its 'technical resources & horsepower.'

Lane said Vitruvian II had numerous choices regarding a capital provider, and called Quantum not only a very strong financial group but also one with "significant technical resources and horsepower." Quantum managing director Dheeraj Verma touted both Lane's and Thaeler's value creation track records and said unconventional plays would continue to drive North American hydrocarbon production.

Quantum has $6.5 billion in equity under management.

Private Equity & Debt Briefs

• **Halcon Resources** announced and priced a secondary public 35 million-share offering at $7.00/share (with a 30-day option for another 5.25 million shares), for projected gross proceeds of $245 million assuming no exercise of the option. The divesting shareholder which will receive all proceeds is **EnCap Energy Capital Fund VIII.** EnCap is liquidating ~1/3 of its position in the offering; its interest in Halcon is likely to drop from 32% to 21%, or 19% if the option is exercised. Underwriters are **Barclays, Goldman Sachs** and **JP Morgan.**

• **Jefferies** highlighted the increasing role PE is playing in US acquisitions at the Hart Energy A&D conference in Dallas, noting that it is particularly suited to allow foreign investors (especially the Chinese) to gain exposure to US hard assets. Vice chairman Ralph Eads said China only wants to deal with companies **Chesapeake**-sized or larger, but the US government will not let China invest on a large scale domestically. Eads said JVs would be allowed, but not outright independent ownership.

• **Resaca Exploitation** announced it could no longer draw funds from its senior credit facility as a result of failure to comply with debt-to-EBITDA and EBITDA-to-interest ratio requirements and other noncompliance issues. Also, the interest rate on its subordinated facility rose 200 basis points to 14% and the interest rate under its senior facility increased 400 bps to 7.5%. Debt as of Q2 was $57 million. After maximizing its senior facility in February, capital projects are limited to operating cash backing. Resaca is exploring strategic alternatives including asset sales.

• **SM Energy** announced it has increased its revolver ~11% to $1.55 billion. Lender commitments remain flat at $1.0 billion. The company also announced Eagle Ford production of 230 MMcfed for July, up 13% vs. Q2 production of 207 MMcfed due to additional tank battery support which is helping alleviate infrastructure constraints in the play. Total corporate 2012 YOY production growth guidance of 25% was reaffirmed, for an expected 573-593 MMcfed total.

Public Equity & Debt Briefs

• **Lucas Energy** raised a gross $1.32 million via a registered offering of 800,000 units priced at $1.65/unit, which were sold to institutional investors. Proceeds will be used to pay down drilling, lease operating and workover expenses, plus G&A expenses. Units consisted of one share of common stock and 0.25 warrants for one share of Lucas stock priced at $2.00/share exerciseable for one year following closure. Lucas shares closed at $1.68 prior to news of the offering.

• **Magnum Hunter Resources** announced and priced an underwritten public offering of nonconvertible 8.0% Series D cumulative preferred stock at $44.00/share via shelf offering. Proposed use of ~$44.6 million in net expected proceeds (before expenses) was not stated. Using liquidation preference value, the offering will increase overall outstanding Series D stock to ~$200 million. Joint book-running managers are **Barclays, MLV & Co.** and **Wunderlich Securities;** co-managers are **Maxim Group** and **National Holdings** subsidiary **National Securities Corp.**

• **Voyager Oil & Gas** changed its name to **Emerald Oil** (trading under EOX) and announced plans for a public offering of 82 million shares, more than doubling its current share count. Proceeds plus cash on hand will be used to repay debt and fund working capital and capex (including a recently announced $14.3 million, 4,500 net acre North Dakota acquisition closing Q4). Shares dropped 11% to $1.06 on news of the offering. A recent audit showed that proved reserves grew 31% in H1 to 4.6 MMboe.

Public Equity & Debt

Carrizo upsizes debt offering 20% to $300 million

After amending its revolver to allow issuance of up of $350 million in senior notes (from $200 million), **Carrizo Oil & Gas** priced $300 million in senior notes at 7.5% to mature in 2020. The offering, upsized 20% from an announced $250 million, represents a 37% increase to Q2 long-term debt of ~$816 million. Net proceeds will be used to repay outstanding borrowings under its revolver and for general purposes.

The notes are redeemable in full at 100% of principal plus a make-whole premium until September 2016. Lead underwriters are **RBC, Wells Fargo** and **Credit Suisse,** senior co-managers are **SG Americas, Capital One** and **Credit Agricole,** and co-managers are **Global Hunter** and **Mitsubishi UFJ.**

Net proceeds will be used to pay down revolver borrowings.

Regulatory filings show Carrizo's production of 24,200 boepd as of August 27 was above the high end of the company's Q3 guidance of 23,000-24,000 boepd. Oil production of 8,165 bopd was near the high end of Q3 guidance of 7,800-8,200 bopd. **Robert W. Baird** said the data was a good indication of operational momentum in regard to Carrizo's shift-to-liquids efforts and likely reflected solid execution, if not upward bias, regarding the company's Q3 production goals.

Vanguard closes $182 million public unit offering

Vanguard Natural Resources closed on a 6.9 million-unit public equity offering at $27.51/unit, including full exercise of the underwriter option for an additional 900,000 units. Net proceeds were $182.3 million, vs. what would have been $158.5 million net had the option not been exercised. Proceeds will be used to repay a portion of outstanding debt under Vanguard's revolver. The offering amounted to a 13.3% dilution to equity holders. It was made via shelf registration and was priced 4.0% below unit closing price the day prior to the announcement. Joint book-running managers are **Wells Fargo, BofA Merrill Lynch, Barclays, Citigroup, JP Morgan, RBC, Deutsche Bank** and **UBS.**In July, Vanguard funded its $445 million acquisition of **Antero's** Arkoma Basin assets with borrowings under its credit facility.

Investors continue to applaud Vanguard's business model.

Sanchez nets $145 million on convertible stock issuance

Sanchez Energy completed a private offering of 3.0 million shares of 4.875% cumulative perpetual convertible preferred stock, raising a net $144.6 million. The offering was well-received by the investment community. It was first upsized 25% from a proposed $100 million capital raise to $125 million, then purchasers exercised an option for an additional 500,000 shares, increasing the offering 20% from 2.5 million to 3.0 million shares. Net proceeds are earmarked for funding operating expenses, supporting general corporate purposes and capex with a particular focus on accelerating Sanchez's drilling program through all operating regions,

Shares up over 10% on good well results & an analyst price target increase.

Dividends/share will be $2.4375 payable quarterly beginning in January. Shares are convertible at the owner's discretion for 2.3250 shares per share of preferred, for a liquidation preference of $50/share. Dividends may be paid in cash, stock, or a combination. Sanchez may not redeem the preferreds, but may convert them beginning October 2017.

Shares of common stock have been on the upswing on solid Eagle Ford well results at Sanchez's Marquis project. CEO Tony Sanchez said the company would likely be completing longer laterals with more stages based on the results. **CapitalOne** called the Marquis results an "impressive starting point" and said, combined with successful Maverick wells in July, the company had de-risked its three project areas.

Midstream Capital

Riverstone & Kaiser back NGL player Sage for $500 million

Riverstone Holdings affiliates and **Kaiser Midstream** are joining forces and funding up to $500 million in equity to form **Sage Midstream LLC,** a new midstream company focused on North American NGLs. It plans to pursue a build-and-acquisition strategy to help producers gain reliable access to high-value markets.

Houston-based Sage is led by president Greg Bowles and VP of business development John Steen. Both were previously with **Lone Star NGL** (a JV of **Energy Transfer Partners** and **Regency Energy Partners)**, where they developed over $1.0 billion in NGL infrastructure projects. Nick Cocavessis, who worked with Bowles & Steen at **LDH Energy Asset Holdings** (acquired in 2011 by Energy Transfer and Regency), will be VP of engineering and operations.

Sage execs bring a long history of NGL project development.

Riverstone co-founders Pierre Lapeyre and David Leuschen called Sage a "great example of Riverstone's approach to growth capital investing," which involves helping high-quality management launch new businesses in attractive markets. The pair said Sage's team has deep relationships and a successful NGL project development track record. Kaiser president John Boone said Sage's management team had been extremely successful developing NGL businesses, and anticipated NGL midstream demand growth. Sage's Bowles called NGL logistics and economics more important than ever, and said both Riverstone and Kaiser bring unique value to the venture.

Riverstone invested $500 million in Meritage Midstream Services II in July.

New York-based Riverstone is an energy and power focused PE firm which has raised over $22 billion in equity across seven funds and co-investments. Bloomberg recently cited an unidentified source saying the company is nearing $5 billion in capital raised under its latest fund, which is seeking $6 billion in total investments. Riverstone recently made a $500 million investment in gas and NGL midstreamer **Meritage Midstream Services II.**

Oklahoma-based Kaiser is owned by George B. Kaiser, the primary owner of privately held **Kaiser-Francis Oil Co.** and majority shareholder of bank and financial services holding company **BOK Financial.** Kaiser is involved in upstream, midstream, downstream and oilfield services enterprises.

Midstates raises $1.4 billion Continued From Pg 1

Those investors also agreed to up Midstates' revolver by $250 million for the transaction, which is expected to fund its development program through year-end 2013.

Finally, Midstates is raising $325 million in 8.0% preferred shares to fund the deal. Current Eagle investor **Riverstone Holdings** will probably buy most or all of these shares, which will convert at $11.00-13.50/share no later than three years after issuance. Midstates said its post-conversion ownership would be 30% each to public float and **First Reserve,** 27% to Riverstone and 13% to Midstate insiders.

Midstates is also issuing $325 million in 8.0% preferred convertible shares.

Midstates to be owned 30% by public, 57% by PE and 13% by insiders.

Eagle will be immediately accretive to proved reserves and production per share and accretive to cash flow per share in 2014. Pro forma proved reserves will be 63.2 MMboe (45% oil, 20% NGLs and 41% PDP).

Midstates was advised by **Evercore Partners, SunTrust** and **BofA Merrill Lynch.** Closure of the acquisition is expected October 1.

Midstream Capital Briefs

• **Crosstex Energy LP** and GP **Crosstex Energy** completed a direct equity placement of 5.7 million units to **Kayne Anderson Capital Advisors** funds at $13.25/unit for net proceeds of ~$75 million. Kayne is a current unitholder. Proceeds help complete Crosstex's funding of its strategic growth initiatives. The offering amounts to a 9.3% dilution to unitholders. The company also modified terms of convertible preferred units held by **Blackstone** unit **GSO Capital Partners** to implement paid in-kind cash distributions at $13.25/unit for the next six quarters, a ~$5.0 million/quarter reduction.

• **Magellan Midstream Partners LP** announced a 2-for-1 unit split, with holders of record as of September 28 receiving an additional unit on October 12 for each unit owned. Magellan CEO Michael Mears noted the partnership's unit price had risen over sevenfold and distributions have increased 259% since Magellan's 2001 IPO. Magellan closed at $81.93/unit the day prior to the announcement. Post-split, annual distributions will be halved to $1.885/unit.

• LNG export profits may not be as strong as the $3/MMbtu domestic to $17/MMbtu in Japan spread indicates. According to **PFC Energy,** today US LNG would cost $7.25 for European delivery and ~$9.20 for Japan. The earliest America is expected to begin exports is 2015, and futures for 2016-2020 average ~$5, with long-term pricing above $6. Foreign gas-to-crude price linkages and likely future crude price declines could shave margins further. Gas at $7 and $90 Brent would push margins negative.

• MLP activity is expected to surge in Q4, according to **Raymond James.** Analyst Kevin Smith, speaking at a recent Houston MLP summit, said Q4 would be "very busy" with at least 90 possible MLP deals in the pipeline and "a tremendous amount of deal wealth in the MLP sector." Hunger for distributions is spreading beyond midstream, and the uptick will likely bring in upstream and downstream companies, including refineries.

Midstream Capital

Oneok Partners raising $1.3 billion in senior notes

Oneok Partners announced and priced two series of senior notes via public shelf offering, which will raise a combined $1.3 billion in gross proceeds. Oneok is selling $900 million in 3.375% senior notes due 2022 and $400 million in 2.0% senior notes due 2017.

Net proceeds of $1.29 billion are expected to be used to repay outstanding debt under a $1.2 billion commercial paper program and for general corporate purposes including capex. Joint book-running managers are **RBS, Mitsubishi UFJ** and **US Bancorp.**

NiSource unveils large increase to long-term capex plans

NiSource announced a long-term $18-20 billion gas infrastructure capex plan covering the next two or more decades. NiSource said $8-10 billion will go toward gas transmission and storage projects, to include a recently announced $4.0 billion interstate pipeline modernization plan and leveraging the company's Utica and Marcellus asset base. The company also plans to spend ~$10 billion on gas distribution infrastructure, primarily toward modernization of distribution systems.

Capex now up to $1.8 billion/year vs.$1.4 billion/year currently.

Separately, NiSource will spend $6-8 billion on the electricity side, targeting environmental enhancements, transmission and distribution system improvements and generator facility upgrades.

By spending $1.5-1.8 billion per year through all divisions, the company intends to grow operating earnings 5-7% per year and grow its dividend 3-5% per year. The plan represents a fairly aggressive increase over previous years with 2011 capex at $1.1 billion and projected 2012 capex a company record at $1.4 billion (of which it spent $619.5 million in 1H12).

Teekay ups growth war chest with $177 million offering

Teekay LNG Partners LP announced a public offering of 4.6 million units priced at $38.43/unit for gross proceeds of $176.8 million. Net proceeds will be used for general partnership purposes which may include future newbuild deliveries or vessel purchases. In the interim, Teekay LNG plans to use proceeds to pay down debt under two of its revolvers. Underwriters have an option for an additional 690,000 units.

Teekay priced offering units 3.8% below the previous day's closing price. Units closed down 5.1% on news of the offering, compared to a 7.0% dilution to equity using Q2 unit count of 65.9 million units.

Lead underwriters are **UBS, Morgan Stanley** and **Deutsche Bank,** senior co-managers are **Credit Suisse** and **JP Morgan,** while junior co-managers are **ABN AMRO, Credit Agricole** and **DNB Markets.**

Enbridge raises $389 million in public offering

Enbridge Energy Partners announced, priced and closed a 14 million-unit offering of its Class A Common Units via shelf registration at $28.64/unit, 3.6% below closing price for units the day prior to the announcement, for net proceeds of ~$388.9 million. Proceeds are to be used to fund a portion of capex and for general corporate purposes.

The offering includes a 30-day option for another 2.1 million units, which if executed would amount to another $60.1 million in gross proceeds. Joint book-running managers are **Morgan Stanley, BofA Merrill Lynch, Barclays, JP Morgan** and **UBS.** Shares closed down 3.6% the day following the announcement of the offering at the offer price, compared to a 4.9% dilution to equity holders.

Public Equity & Debt

Approach to issue 5.0 million shares to fund Wolfcamp

Approach Resources announced plans for a public offering of 5.0 million shares of common stock via shelf registration. Underwriters will have a 30-day option for an additional 750,000 shares. Net proceeds will fund Wolfcamp capex and general working capital, and pending those uses will repay outstanding debt under Approach's revolver.

The offering has not yet been priced, but if share price of the day preceding the announcement is used, gross proceeds would be $163.25 million assuming no exercise of the option. The offering should dilute current stockholder interest 15%, or 17% if the option is exercised.

JP Morgan is the sole book-running manager; **KeyBanc, RBC, Wells Fargo, Scotiabank/Howard Weil** and **Wunderlich** are co-managers.

NuStar nets $337 million in units offering

NuStar Energy LP announced, priced and closed a 7.13 million-unit offering at $48.94/unit for net proceeds of ~$337.1 million. A 930,000-unit overallotment option was fully executed, accounting for $45.5 million of total gross proceeds. Proceeds will be used to repay outstanding borrowings under NuStar's revolver, for working capital and to fund possible future acquisitions. Joint book-running managers were **UBS, Barclays, Credit Suisse, Deutsche Bank, JP Morgan, Morgan Stanley, RBC** and **Wells Fargo.** Co-managers were **Goldman Sachs, Raymond James, BB&T** and **Mitsubishi UFJ.**

Shares closed down 4.6% the day following the announcement of the offering, compared to what ultimately amounted to a 10.1% dilution to unitholders after factoring in the exercised option. William Greehey chairman of NuStar's GP was expected to purchase 490,000 of offering units.

Downstream Capital

PE players offer to take TPC Group private for $850 million

Houston-based petrochemical company **TPC Group** is being acquired by PE players **First Reserve Corp.** and **SK Capital Partners** for $850 million in cash ($627 million for ~15.7 million shares at $40/share) and assumed net debt. TPC makes specialty chemicals including butadiene and high purity isobutylene, with several Gulf Coast facilities. Closure is expected in Q4.

Petrochem TPC stands to benefit from cheap gas and abundant NGLs.

Securities filings indicate **BofA Merrill Lynch, Jefferies** and **Morgan Stanley** are providing a $250 million revolver and $600 million bridge credit facility to fund the deal, and TPC also plans to issue up to $600 million in senior secured notes via private offering.

First Reserve director Neil Wizel called his firm a growth equity investor and said it anticipated helping TPC grow its core business to take advantage of increasing North American natural gas and NGL supplies.

TPC's deal negotiations lasted over a year including an increased offer.

TPC's board has approved the deal, but shareholder approval is still required and the $40/share acquisition price, representing just a 1% premium to the pre-news closing price of $39.59, has some investors up in arms. **Sandell Asset Management,** with a 7% stake, said the offer grossly undervalues TPC and sued. TPC is the largest manufacturer of butadiene, used to make synthetic rubber. Gas feedstocks yield less butadiene, and many believe prices will rise. TPC said 22% of shareholders support the deal.

Investor Sandell sued, saying offer grossly undervalues TPC.

However, TPC said negotiations lasted over a year, and included an offer increase by the purchasers. The company said it was facing steep capital outlays for planned projects which were likely to exceed market value, and decided to go private after a comprehensive review process. It is also noteworthy that shares are up 20% since Bloomberg first reported the company could go private.

First Reserve focuses on the energy industry, while SK focuses on chemicals and specialty products. SK's managing director Jack Norris said partnering with First Reserve in the TPC buy lets the group leverage its members' sectoral strengths.

Commodity firms may seek capital in shift to hard assets

Concerns regarding a possible peak of the commodities super-cycle and eventual price contractions may bring about "a new order in commodity trading" evinced by more acquisitions, investments and public offerings, according to a report by **Trafigura** founder and **Oliver Wyman** consultant Graham Sharp. Sharp said the proposed $80 billion **Glencore-Xstrata** deal is an indicator that traders are moving from a raw materials-focused model toward production, refining and logistics investments. **Louis Dreyfus Commodities** also recently issued its first bond ever to fuel an ambitious capex plan.

Because of the larger capital commitments and longer-term investments needed under an asset-centric model, Sharp said more trading houses will need to tap public or private equity—including sovereign wealth funds—and debt markets.

Downstream Briefs

- **Apollo Management Holdings** is conducting a secondary offering of 17.5 million **LyondellBasell** shares at $46.94/share, expecting net proceeds of ~$821 million. The offering represents ~10% of Apollo's stake in the chemical company which will receive none of the proceeds. **Access Industries,** which holds more than 80 million shares and was expected to participate in the offering, decided not to do so. Underwriters **Goldman Sachs, Deutsche Bank** and **Morgan Stanley** have an option for 2.6 million additional shares.
- The Street continues to like refiners on market imbalances and wide crack spreads. Shares of **Phillips 66** are up 43% from their May IPO price. Phillips earned $1.2 billion in Q2, with free cash flow of $1.4 billion. With $8 billion in long-term debt, its debt-to-equity ratio is 30%.
- **Valero** said it restarted two ethanol plants on improving margins and is now running at full capacity of 10 plants. The company closed the plants in June saying it expected them back in operation during the corn harvest, which was 26% complete as of September 16. Corn is down ~11% from record August prices, while denatured ethanol futures have risen 3.5% YTD.

Legal & Regulatory Briefs

• The US Treasury Department froze all US assets of Mexican oilfield services company **ADT Petroservicios SA de CV** and has prohibited US companies and individuals from doing business with the company. The company is owned by Francisco Antonio Colorado Cessa, who has been identified as a drug trafficker with ties to the Los Zetas group, and is in US custody awaiting trial for money laundering.

• The **California Air Resources Board** held a practice carbon credit auction, leading up to its first official auction in November. Participation was optional. The board spent years developing rules and mechanisms for the state's pending carbon market, which will apply to power plants, refineries and factories emitting over 25,000 tons of greenhouse gases per year (the law creating the market passed in 2006). State refiners, which have limited options to reduce emissions, want the initial round of allowances to be given away for free.

• **Chesapeake** lost an appeal to the Fifth Circuit Court of Appeals covering ~$20 million in damages to **Peak Energy.** The damages relate to ~5,400 Haynesville acres for which Chesapeake intended to pay $15,000/acre in June 2008. Five months later, local acreage had fallen to $3,000/acre. The court upheld the district court award covering the difference (or $12,000/acre) for 1,646 acres Peak had available and which met the description in the LOI.

• Astudy by **John Dunham & Associates** finds that costs to comply with Bureau of Land Management proposed fracking chemical disclosure and well certification rule would run $253,839/well, over 21 times the BLM's estimates of $11,833/well. The rule would control development of 38 million acres of federal land. **EOG Resources'** government affairs director Eric Dille called the rule unnecessary, excessive and beyond all state requirements and said it would place undue economic and time burdens on independent producers.

Downstream Capital

Alon to raise $230 million in IPO of refining MLP

Continuing a recent spate of unusual MLP packagings, refiner **Alon USA Energy** filed to IPO a newly formed refining and marketing unit, **Alon USA Partners LP,** as a "variable" MLP with hopes to raise up to $230 million. Number of units and projected price have not yet been determined. The "variable" part of Alon's MLP structure refers to distributions, which will fluctuate depending on performance, although the partnership will still distribute 100% of available cash. Proceeds will be used to pay debt and for capex.

Alon's refinery utilization was 97.8% in 1H12, well above 1H11's 87.6%.

The MLP will own and operate Alon's refining and petroleum marketing operations in the south-central and southwestern US, including a 70,000 bpd refinery in Big Spring, Texas—which refines primarily gasoline, diesel and jet fuel. The refinery currently generates the bulk of Alon's EBITDA. Last year, Alon's refining and marketing assets generated $371 million in adjusted EBITDA on $3.2 billion in revenues. During 1H12, they generated $192 million in adjusted EBITDA (down 7% YOY) on $1.7 billion in revenues (up 8%).

Alon would be the 2nd variable MLP, following Northern Tier Energy in July.

Tudor, Pickering, Holt & Co. notes that the only other existing variable MLP refiner, **Northern Tier Energy,** is up 35% vs. 27% for the rest of Tudor's refining coverage universe since its July IPO. Tudor said Q2 earnings comments indicate the sector is watching Northern's performance does do not believe it creates shareholder value. The I-bank thinks the model could be more compelling for smaller refiners, with **Delek US Holdings** the next largest after Alon.

Partners intends to trade on the NYSE under ALDW. Underwriters are **Goldman Sachs, Credit Suisse, Citigroup** and **Jefferies.**

Susser Petroleum hopes to raise $174 million in IPO

Susser Holdings MLP spinoff **Susser Petroleum Partners LP** has set pricing for 9.5 million shares under its IPO at $19-$21 per share, with hopes to net ~$174.3 million. Proceeds will be used to reimburse Susser's parent for capex and to buy ~$146.8 million of securities to be used as collateral for a long-term loan.

Susser Petroleum Partners is a wholesale motor fuel distributor serving more than 540 retail convenience stores belonging to Susser Holdings under the Stripes brand, largely in Texas. It also operates in Louisiana, New Mexico and Oklahoma. The company reported $24 million in gross profits in 1H12 on $2.16 billion in sales, up 14% and 16% YOY, respectively. It first filed to IPO in June, when it said it hoped to raise $200 million.

Parent Susser Holdings accounts for 60% of fuel distributions.

Susser will trade on the NYSE under SUSP. Lead underwriters are **BofA Merrill Lynch, Barclays, Wells Fargo** and **UBS.** Co-managers are **RBC, Raymond James, BMO, Baird** and **Janney Montgomery Scott.**

Legal & Regulatory News

Kinder Morgan & Goldman settle El Paso shareholder suits

Kinder Morgan's El Paso sub reached a $110 million settlement covering former El Paso shareholder claims in Delaware, Texas and New York. **Goldman Sachs,** which some investors accused of conflicts-of-interest in regard to the transaction, agreed to forgo its $20 million fee related to the El Paso sale as part of the settlement. Kinder Morgan said the acquisition benefited both Kinder Morgan and El Paso, but that avoiding the cost and uncertainty of litigation and resolving the matter were in the best interests of shareholders.

Resolved conflict-of-interest claims against former El Paso chief Doug Foshee.

Kinder Morgan spokesman Larry Pierce declined to tell Bloomberg how the company planned to fund the settlement.

In other Kinder Morgan family news, **Kinder Morgan Management** announced that underwriters of its recently completed 8.8 million-share public offering fully exercised an option for 1.32 million shares, generating an additional ~$109 million in net proceeds in what now becomes a $726.9 million share offering. Proceeds will be used to purchase a corresponding number of i-units from **Kinder Morgan Energy Partners,** which will in turn use proceeds to pay part of the purchase price for a recent dropdown. Lead underwriters were **Barclays** and **BofA Merrill Lynch,** with co-managers **Credit Suisse, Deutsche Bank, JP Morgan, RBC** and **UBS.**

Goldman Sachs agrees to forego its $20 million fee related to the sale.

An 8.7 million common share underwriter option was also exercised under a secondary public offering of Kinder Morgan shares by **Carlyle Group** and **Riverstone Holdings.** Although Kinder Morgan itself will receive no proceeds, the news at least reflects strong demand for shares at the $34.51 offer price.

Blackstone energy fund raises $2.5 billion

Continued From Pg 1

Blackstone began marketing the fund last year and, according to unidentified sources speaking with Bloomberg, Blackstone received investors' permission to extend fundraising two months past the original end of June cutoff. The energy only fund was created to take advantage of the "extraordinary" opportunities proposed by the energy space without overexposing the general fund.

Since its first closing in August 2011, BEP has committed over $965 million in six investments (four in the US), and is currently evaluating a "sizeable and diverse backlog" of proprietary investments. Foley said that although historically the company's investments have been 50:50 domestic and international, BEP will have a lower proportion of US investments due to increasing international deal flow in places like Brazil, India, Africa and Latin America.

Nearly $1.0 billion is committed, leaving another $1.5 billion for new deals.

Blackstone has been highly successful in energy and since its first energy investment in 1997 has invested or committed ~$6.3 billion in 21 energy transactions across four continents. These energy investments through Q2 have generated 37% net IRR, without a single realized loss of capital. The returns are over four times that of the S&P Energy Sector Index and over six times the S&P 500 Index.

David Foley is fund CEO & Blackstone's chief of energy & natural resources.

Blackstone has $190 billion in assets under management—Blackstone's flagship $16 billion diversified general-purpose fund and **Blackstone Capital Partners VI** generally invests alongside the energy fund. Blackstone is a key backer of **Cheniere Energy Partners'** LNG export facility with a $2.0 billion commitment.

Legal & Regulatory Briefs

• **ConocoPhillips** and **Burlington Resources** won an appeal against regulators before New Mexico's Supreme Court in a royalty dispute. The State Land Office said Conoco and Burlington owed $18.9 million and $5.6 million in underpaid royalties, and the companies challenged. The issue revolved around calculation methods under decades-old lease provisions.

• **Deutsche Bank's** energy trading unit is facing a $1.5 million fine and disgorgement of $123,198 in profits for alleged power market manipulation. The Federal Energy Regulatory Commission said Deutsche Bank submitted false information regarding 2010 trades in California. The bank has until October 5 to formally respond to the allegations, but has described them as erroneous and plans to contest them. **JP Morgan** is facing similar investigations.

• North Dakota's Public Service Commission approved ~$360 million in new construction via a gas processing plant and wind farm. **Oneok's** Garden Creek II, a 100 MMcfd gas processing facility, will have capacity for ~14% of the state's current gas output and be able to heat ~900 homes. Commissioner Kevin Cramer said "When you live in a cold-weather state, watching 30% of [natural gas] being flared is hard to take." **Allete's** 100 megawatt wind farm will be able to produce power for ~40,000 homes.

Legal & Regulatory Briefs

• **QEP Resources** paid $1.2 million in fines to the US Interior Department for inaccurate 2008-2009 royalty and production reports related to 35 leases in Colorado and Utah. The agency said QEP is now correcting the reports.

• **Range Resources** won an appeal against Texas landowners seeking to prevent the company from countersuing them for $3 million for allegedly conspiring to bring about EPA action against it. The landowners initially sued Range for allegedly contaminating their water with methane and benzene. The Texas Second District Court of Appeals ruled that it lacked jurisdiction to overturn the district court ruling that the countersuit could not be thrown out under Texas.

• Houston-based bioenergy company **Terrabon** filed Chapter 7 (liquidation) bankruptcy. The company said the decision was driven by failure to obtain financing to complete development and engineering of its first commercial-scale facility. The company developed biofuel products, water desalination and waste conversion processes. Around 60 full-time employees have been laid off.

• IPAA announced that two lawsuits by environmental groups challenging Central GOM lease sale 213 in 2010 have been defeated. The suits challenged the sale because new National Environmental Policy Act and Endangered Species Act assessments were not conducted pre-sale. IPAA, API, the US Oil & Gas Association and International Association of Drilling Contractors were defendants. IPAA chief Barry Russell called the cases' dismissals "a total victory for the oil industry."

Legal & Regulatory News

BP & DOJ appeal Feb. Macondo ruling that cleared Transocean

Both **BP** and the Justice Department, are appealing a February decision by the judge overseeing the overarching Macondo litigation that found **Transocean** not liable for oil discharged below the water's surface, protecting the driller from billions in fines under the Oil Pollution Act. Judge Carl Barbier had also ruled that Macondo stakeholder **Anadarko** could be found liable under the Clean Water Act.

Transocean recently said it expected to settle for $2 billion or less.

Meanwhile, the Justice Department renewed aggressive rhetoric against BP in support of gross negligence claims that could cost the major up to $18 billion in Clean Water Act fines not counting compensatory or punitive damages. In recent court filings, the Justice Department focused on a key well pressure test which it describes as "simple, yet fundamental and safety-critical...stunningly, blindingly botched in so many ways, by so many people."

Department of Justive aggressively pursuing Transocean & BP.

Royal London Asset Management fund manager Ivor Pether said the feds' aggressive language "might well reduce the chances of a swift settlement." **Credit Suisse** agreed, saying the language seemed to indicate a "firming" of the Justice Department's position and reduced BP's chances of settling in the low end of the $15-25 billion range.

The Justice Department's filing came as part of final settlement talks for a $7.8 billion deal between BP and private sector claimants. It asserts Judge Barbier should not make findings regarding gross negligence claims under the settlement.

BP said it was not grossly negligent in the incident and looks forward to presenting its case.

'Feels like this is going to trial all around.' —Tudor, Pickering, Holt & Co.

Investec analyst Stuart Joyner revived corporate break-up arguments, saying that would be the only way to unlock true shareholder value. The market appears not to concur. Although BP shares fell on the initial news, they recovered and surpassed recent highs on divestitures to **Plains Exploration** (see story on pg. 1) and **Shell.**

Wind jobs & turbine production to drop if PTC expires

The wind power industry is unstable ahead of Congress' decision on whether to extend the Production Tax Credit (PTC), slated to expire December 31. The government has subsidized renewables for over 30 years, with wind the most heavily subsidized at $4.986 billion in FY10, or $52.69/MW of electricity. It's no wonder wind has been the most vocal proponent for the tax credit extension, according to **PPHB Energy Investment Banking**. Ironically, wind is the most competitive renewable vs. conventional electricity sources and has shown the fastest growth rate.

36,000 jobs on the line if PTC expires.

Wind Energy Trends: 2007-2010

	2007	2010
Subsidies ($MM)	$476	$4,986
Shares of Electricity	0.20%	2.30%
$/MW-hr	$23.37	$56.29

Source: EIA & The Wall Street Journal

Many companies have cut wind-energy related jobs in 2012 because of uncertainty surrounding the PTC, according to the American Wind Energy Association. Denmark-based **Vestas Wind Systems**—the largest manufacturer of wind turbines—recently cut 1,400 jobs, in addition to 2,300 layoffs announced in January, cutting annual costs by ~$365 million.

Lower demand has also had impacts, and turbine production is expected to decline further. AWEA projects production will drop to 400 in 4Q12 and zero in 2013, compared with 3,500 in 3Q12.

Service Capital News

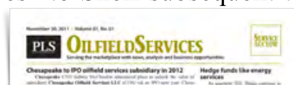
PE players form shallow water driller & buy Transocean jackups

Castle Harlan, CHAMP Private Equity and **Lime Rock Partners** have created a shallow-water pure-play, forming Dubai-based **Shelf Drilling International Holdings** with equal parts ownership. The entity quickly acquired 37 jackups and a swamp barge from **Transocean,** effectively the company's entire standard jackup and barge fleet, for $1.05 billion, comprised of $855 million in cash and $195 million in preferred shares issued by Shelf's parent. Shares will yield 10%, escalating to 14% under certain conditions. Should an IPO or change of control occur for Shelf, they are subject to mandatory redemption.

Shelf Drilling acquired $1.0 billion of jackups from Transocean.

Shelf appears to have gotten a good deal; Transocean said Q2 carrying value of the assets was ~$1.4 billion. Transocean also agreed to provide "various transition support services" to Shelf subsequent to closure, which is expected in Q4.

Shelf chief David Mullen said the company's strategy would be to focus exclusively on shallow water drilling, tapping decades of management, investment firm and employee expertise to provide best-in-class drilling operations.



OilfieldServices Vol 02 No 11

Read more on this & other service sector stories

Plains E&P to finance Gulf buys with debt Continued From Pg 1

Overall, Plains expects 2013 cash flow, operating margin and oil production to increase over 100% with overall production and resources growing 40%.

To fund the deals, Plains has $7.0 billion in place and is increasing its borrowing base by $3.0 billion to $5.3 billion. The array of lenders consists of **JP Morgan Chase, Bank of America, Bank of Montreal, Barclays, Citigroup, RBC, Bank of Nova Scotia, T-D Bank** and **Wells Fargo.** Debt includes a $3.0 billion five-year revolving line of credit, a $750 million five-year term loan and a $2.0 billion senior unsecured bridge loan.

PXP

Net debt-to-total capitalization should be 40% by 2015.

To reduce debt, Plains plans to divest $1.5-2.0 billion in non-op onshore assets. The company also plans to generate over $1.0 billion per year in free cash flow by hedging up to 90% of oil production through 2015.

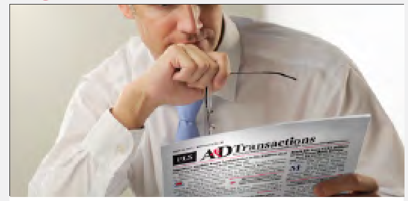
As it has in the past, Plains will continue its focus on mature oil fields with healthy reserves, but it will now have two-thirds of operations focused on the Gulf and only one-third on land. While onshore capex will tick down ~17% between now and 2016, the company plans reductions beyond that point—over 50% from $984 million in 2016 to $470 million in 2017 and roughly another third in 2018. After 2018, projected onshore capex should settle in the $300 million. Onshore production and cash flow are expected to remain stable through 2020.

Plains plans to divest $1.5-2.0 billion in non-core onshore assets.

Investors initially punished Plains' stock over the ramp-up in debt (Q2 long-term debt was $3.9 billion) with shares falling 11% the day following the news, but equity holders appear to have been mollified by the company's post-deal cash flow and deleveraging plans, as well as comments from CEO James Flores, who said the assets are superior to peers' GOM holdings. As of last Friday, shares had fully recovered to their pre-deal-news levels.

Tudor, Pickering, Holt & Co. favored the buys and increaseed Plains' NAV/share by 7%. Tudor also called the deal good for BP, with the sale price 14% above its valuation estimates.

Sign Up Today!



Latest Acquisition News

- Shell & Chevron buy Chesapeake's remaining Permian packages
- Plains E&P enters big leagues with $6.1 billion in GOM buys
- QEP buys $1.38 billion of Bakken-Three Forks assets
- Statoil seeks a larger slice of US shale assets
- Goodrich sells East Texas asset for $95 million
- Noble sells Kansas assets to Citation for ~$140 million
- Miller adds to Tennessee well stakes in deal with PDC
- Bonanza Creek bulks up Wattenberg with $60 million lease
- WellStar in $51 million North Dakota Bakken buy
- Petrobras mulling asset sales
- Northwestern acquires Montana assets from NFR
- More Chesapeake assets hit market in Oklahoma & Texas
- Mississippi Lime package for sale covers 204,000 net acres
- Smith Energy seeks sale of horizontal Wolfcamp assets
- Heckmann moves toward Bakken

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Service Briefs

• **Frontier Oilfield Services** has undertaken an exchange offering for the remaining 49% of interests in **Frontier Income and Growth LLC** which it does not yet own. If interest holders agree to the deal, ~1.87 million shares of Frontier restricted common stock will be issued with sellers becoming Frontier shareholders. Frontier is making the move to complete ownership of Frontier Income subsidiary **Trinity Disposal and Trucking LLC.**

• **Hornbeck Offshore Services** completed an exchange offer for 100% of $375 million in outstanding privately issued 5.875% Series A senior notes due 2020 for an equal amount of publicly registered Series B senior notes due 2017. The Series B notes represent the same debt as the Series A notes—replacing them—and are covered by the same indenture, but are freely tradeable. **Wells Fargo** was the exchange agent.

• **Seadrill** announced and priced an offering of $1.0 billion in unsecured notes due 2017 at 5.625% via private offering. Net proceeds will be used to repay existing debt. The company said an $0.84/share quarterly dividend would be paid on September 20, representing a 2.4% increase vs. its most recent dividend and an overall 8.4% yield as of the September 6 record date.

• **Superior Energy Services** subsidiary **SESI** completed its exchange offer of $800 million in registered 7.125% senior notes due 2021 for an equal amount of unregistered, but otherwise identical, notes. At expiration, ~99.8% of unregistered notes had been tendered and received. Unregistered and untendered notes will remain subject to the transfer restrictions affecting privately issued debt.

Service Capital News

Teekay Offshore raising $205 million in equity for drop-down

Teekay Offshore Partners announced and priced a public 7.4 million unit offering at $27.65/unit, for gross proceeds of $204.6 million. The offering was upsized from a previously announced 7.0 million units. Net proceeds will be used to partially finance purchase of the Voyageur Spirit FPSO from partnership parent **Teekay Corp.** Proceeds will initially be used to repay a portion of outstanding Partners debt under its revolvers, but will be reborrowed on closure of the purchase in November. Partners said the remainder of the acquisition will be financed through issuance of $40 million worth of Partners units to Teekay and borrowings under a new bank facility.

Partners will round out financing with equity issuance to Teekay & a bank facility.

Underwriters have a 30-day option for an additional 1.11 million units, which would gross an additional $30.7 million. Without exercise of the option, the offering amounts to a 10.5% dilution to unitholders, compared to units opening down 5.3% on news of the offering. Joint book-running managers are **Citigroup, BofA Merrill Lynch** and **RBC.** Senior co-managers are **Barclays, Credit Suisse, Deutsche Bank** and **Raymond James**; co-managers are **ABN AMRO, ING** and **Natixis.**

Tyco Flow Control to raise $900 million in senior note offering

Tyco International's Flow Control subsidiary is selling $550 million in 3.150% senior notes due 2022 and $350 million in 1.875% senior notes due 2017 via private offering, priced respectively at 99.687% and 99.835% of par. Flow Control is being spun off from Tyco and merged with **Pentair** in a previously announced ~$4.9 billion deal.

Tyco is issuing $550 million in 3.15% notes and $350 million in 1.875% notes.

Proceeds from the offerings will fund a loan to Pentair, so Pentair can redeem $500 million in senior unsecured notes after the merger. Proceeds will also fund a cash payment to Tyco to reimburse certain inter-company obligations related to the spin-off and merger. Proceeds will be placed in escrow pending completion of the transactions.

Ocean Rig upsizes private debt offering to $800 million

Ocean Rig UDW's subsidiary **Drill Rigs Holdings** announced and priced a private offering of $800 million in 6.5% senior secured notes due 2017, sold at 99.469% of par. Proceeds will be used to fully repay all outstanding debt under Ocean Rig's $1.04 billion senior secured credit facility, which stood at $487.5 million in Q2, and to finance offshore drilling rigs.

Proceeds to also finance new offshore drilling rigs & pay down senior secured.

The offering was upsized by $50 million, or ~7% from initial projections. Should Ocean Rig fully pay off its credit facility debt with proceeds as stated, long term debt would increase 12% in relation to Q2's reported $2.53 billion.

FMC raising $800 million to roll debt

FMC Technologies announced and priced a public offering of $800 million in senior unsecured notes, consisting of $500 million in 3.45% notes due 2022 and $300 million in 2.00% notes due 2017. Net proceeds will be used to repay outstanding commercial paper and debt under the company's revolver. **JP Morgan** and **Wells Fargo** are joint book-running managers.

The company projects ~20% YOY subsea revenue growth, to reach $4.0 billion this year. Subsea awards are expected to be $4.0-5.0 billion, exceeding last year, while subsea margins of 11-12% should also exceed last year's performance.

Who's Hot, Who's Not — as of 9/18

Analysts' view on select stocks

Key: Ticker/Current Price/52-Week Low/52-Week High/Market Cap

Upgrades:

- **Access Midstream Partners** (ACMP/$31.16/$22.50/$32.18/$4.61B) from Neutral to Buy by Citigroup.
- **Cabot Oil & Gas Corp.** (COG/$44.82/$27.77/$47.25/$9.42B) from Hold to Buy by Stifel Nicolaus.
- **Gastar Exploration, Ltd.** (GST/$1.83/$1.55/$4.45/$115.96M) from In-line to Outperform by Imperial Capital.
- **Cenovus Energy Inc.** (CVE/$36.03/$27.15/$39.81/$27.24B) from Equal Weight to Overweight by Barclays.
- **Gulfport Energy Corp.** (GPOR/$30.35/$15.79/$37.80/$1.69B) from Accumulate to Buy by Global Hunter Securities.
- **HollyFrontier Corp.** (HFC/$40.36/$21.13/$42/$8.18B) from Market Perform to Outperform by Wells Fargo.
- **Rosetta Resources, Inc.** (ROSE/$47.64/$30.42/$54.58/$2.5B) from Hold to Buy by Stifel Nicolaus.
- **RPC Inc.** (RES/$13.13/$8.75/$15.35/$2.89B) from Market Perform to Outperform by FBR Capital.
- **SemGroup Corp.** (SEMG/$36.64/$18.34/$37.30/$1.53B) from In-line to Outperform by Imperial Capital.
- **Venoco Inc.** (VQ/$11.71/$6.50/$12/$692.83M) from Underweight to Overweight by JP Morgan.
- **WPX Energy Inc.** (WPX/$16.41/$13.22/$23.42/$3.31B) from Equal Weight to Overweight by Barclays.
- **WPX Energy Inc.** (WPX/$16.41/$13.22/$23.42/$3.31B) from Market Perform to Market Outperform by Howard Weil.

New Coverage:

- **Approach Resources** (AREX/$32.59/$14.14/$39.18/$1.1B) at Buy by C.K. Cooper.
- **C&J Energy Services Inc.** (CJES/$22.13/$12.65/$23.32/$1.17B) at Outperform by William Blair.
- **Cabot Oil & Gas** (COG/$44.82/$27.77/$47.25/$9.42B) at Outperform by Bernstein.
- **Carbo Ceramics Inc.** (CRR/$68.29/$63/$162.36/$1.58B) at Market Perform by William Blair.
- **Core Laboratories NV** (CLB/$129.59/$82.74/$143.21/$6.11B) at Outperform by William Blair.
- **Dawson Geophysical Co.** (DWSN/$24.34/$20.20/$40.76/$190.97M) at Outperform by Barrington Research.
- **EPL Oil & Gas Inc.** (EPL/$21.33/$9.99/$21.99/$835.24M) at Buy by Brean Murray, Carret & Co.
- **FMC Technologies Inc.** (FTI/$48.57/$34.46/$55.19/$11.53B) at Outperform by William Blair.
- **Forum Energy Technologies Inc.** (FET/$25.29/$18.60/$25.69/$2.17B) at Outperform by William Blair.
- **Genesis Energy LP** (GEL/$33.46/$21.82/$34.12/$2.66B) at Buy by Global Hunter Securities.
- **Hi-Crush Partners LP** (HCLP/$21.67/$17/$22.25/$590.34M) at Overweight by Barclays.
- **Magnum Hunter Resources Corp.** (MHR/$4.80/$2.33/$7.71/$810.79M) at Outperform by Credit Suisse.
- **National Oilwell Varco** (NOV/$82.50/$47.97/$87.72/$35B) at Outperform by William Blair.
- **Northern Tier Energy LP** (NTI/$18.68/$13/$20.95/$2.06B) at Buy by UBS.

People & Company Briefs

- **Burleson LLP** has appointed *Alex Perez* as Managing Partner, San Antonio office.
- **Chesapeake** plans to sell its 20-story, 460,000 sq. ft. office tower in Fort Worth. It bought the building from **Pier 1 Imports** in 2008 for $104 million. In August filings, Chesapeake reported a $219 million impairment loss linked to "an office building and surface land located in our Barnett Shale operating area," and classified the tower as held for sale as of June 30. Earlier reports indicate the company has a $54 million loan on the building through a Plano, Texas hedge fund.
- **Continental Resources Inc.** has appointed *Diane Montgomery* as director, Corporate Finance and Treasury.
- **FTI Consulting Inc.** has appointed *David Blackmon* as managing director, Houston office.
- **Greenfields Petroleum Corp.** announced the departure of *Christopher C. Rivett-Carnac* from its board of directors. *Gerald F. Clark* has been appointed to replace him.
- **Marathon Oil Co.** has appointed *Dale Malody* as director, North America Business Development.
- **Newco Energy Acquisition Holdings LLC** has appointed *Mark Johnson* as General Counsel and member of the Advisory Board.
- **Par Petroleum Corp.** has appointed *John T. Young Jr.* as CEO and *R. Seth Bullock* as CFO. *Jacob Mercer, William Monteleone, Michael Keener, L. Melvin Cooper* and *Benjamin Lurie* have been appointed to its board of directors.
- **Rangeford Resources Inc.** has appointed *John Miller* as CFO and *E. Robert Gates* as vice-president, Mergers & Acquisitions. *Kevin Carreno* has been appointed to its board of directors.
- **Three Rivers Operating Co.** has retained *Jon Oberg* as a financial analyst.

Who's Hot, Who's Not — as of 9/18

New Coverage:

- **Northern Tier Energy LP** (NTI/$18.68/$13/$20.95/$2.06B) at Equal Weight by Barclays.
- **Oil States International Inc.** (OIS/$83.97/$44.77/$87.65/$4.6B) at Outperform by William Blair.
- **PDC Energy Inc.** (PDCE/$32.68/$15.08/$40.26/$973.52M) at Buy by Miller Tabak.
- **Pioneer Energy Services Corp.** (PES/$8.85/$5.83/$12.17/$545.41M) at Market Perform by Howard Weil.
- **QEP Resources Inc.** (QEP/$32.15/$23.56/$38.44/$5.73B) Outperform by BMO Capital Markets.
- **QR Energy LP** (QRE/$19.42/$15.25/$23.88/$866.85M) at Overweight by Barclays.
- **QR Energy LP** (QRE/$19.42/$15.25/$23.88/$866.85M) at Buy by Wunderlich.
- **Rose Rock Midstream LP** (RRMS/$31.32/$19/$33/$529.38M) at Outperform by Imperial Capital.
- **Rowan Companies PLC** (RDC/$36.85/$28.13/$39.40/$4.58B) at Outperform by Credit Suisse.
- **Schlumberger Ltd.** (SLB/$76.08/$54.79/$80.78/$100.64B) at Market Perform by William Blair.

Downgrades:

- **Atwood Oceanics Inc.** (ATW/$47.57/$30.64/$49.75/$3.11B) from Buy to Accumulate by Global Hunter Securities.
- **Carbo Ceramics Inc.** (CRR/$68.29/$63/$162.36/$1.58B) from Buy to Hold by Dahlman Rose.
- **Dril-Quip Inc.** (DRQ/$71.71/$47.49/$77.12/$2.93B) from Accumulate to Neutral by Global Hunter Securities.
- **EV Energy Partners LP** (EVEP/$62.99/$43.56/$77.96/$2.66B) from Buy to Neutral by Global Hunter Securities.
- **Hess** (HES/$55.36/$39.67/$67.86/$18.65B) from Buy to Hold by Standpoint Research.
- **Marathon Petroleum Corp.** (MPC/$52.07/$26.35/$56.22/$17.62B) from Outperform to Neutral by Credit Suisse.
- **Matrix Service Co.** (MTRX/$10.80/$7.34/$15.06/$280.14M) from Buy to Hold by KeyBanc Capital Markets.
- **Nexen Inc.** (NXY/$25.44/$13.63/$26.21/$13.47B) from Overweight to Equal Weight by Barclays.
- **Phillips 66** (PSX/$45.52/$28.75/$48.22/$28.54B) from Outperform to Neutral by Credit Suisse.
- **Phillips 66** (PSX/$45.52/$28.75/$48.22/$28.54B) from Buy to Neutral by Citigroup.
- **Plains Exploration & Production Co.** (PXP/$37.68/$20.25/$47.13/$4.86B) from Buy to Accumulate by Global Hunter Securities.
- **Seadrill Ltd.** (SDRL/$39.96/$24.68/$42.34/$18.66B) from Overweight to Neutral by HSBC Securities.
- **SM Energy Co.** (SM/$54.59/$39.44/$88.50/$3.57B) from Outperform to In-line by Imperial Capital.
- **Spectra Energy Corp.** (SE/$28.90/$23.17/$32.27/$18.88B) from Overweight to Equal Weight by Barclays.
- **Transocean** (RIG/$45.15/$38.21/$60.09/$16.23B) from Buy to Neutral by Guggenheim.
- **Tyco International Ltd.** (TYC/$54.68/$38.30/$58.12/$25.15B) from Overweight to Neutral by JP Morgan.
- **Tyco International Ltd.** (TYC/$54.68/$38.30/$58.12/$25.15B) from Overweight to Equal Weight by Barclays.
- **Valero Energy Corp.** (VLO/$31.60/$16.40/$34.36/$17.43B) from Buy to Neutral by Citigroup.

Key: Ticker/Current Price/52-Week Low/52-Week High/Market Cap
Source: **Yahoo! Finance**

Financial Takes

Our **CapitalMarkets** editors are working hard to keep their fingers on the pulse of the latest funds, pricing, news and professional opinions pertaining to the oil and gas finance sector. Whether it's through a one-on-one interview, heard-it-on-the-street feedback or energy conference coverage, each issue of the CapitalMarkets contains insights about how things are shaping up for current and future financial trends. Below is a round up of current thoughts from some of the sector's well-known analysts and portfolio managers. Read On!

Oasis Petroleum (OAS; $30.51 – Sept 6.; Outperform; PT: $39)

Plenty of tailwinds in 2H12. Many of the industry's emerging plays are facing "growing pains" and "hiccups" as a result of lagging midstream and other infrastructure investment. We see the Bakken as roughly a year ahead of schedule in this regard. Differentials have collapsed (and gone positive), which we think likely helps 2H12 estimates. With field-level investments largely in place and pad development around the corner, cost efficiencies are also ahead of the curve versus less mature shale plays. While service costs had been slow to decline in the play, they are finally making their way lower, as highlighted by Oasis (and others) on its 2Q12 call. Increasing price target to $39. **Oasis will further delineate its West Williston acreage in 2H12, while also continuing its delineation of the Three Forks and its optimal spacing regime. This stands to add materially to its inventory.** Oasis trades at a discount to Bakken peers and our coverage generally, especially when taking its 50%+ growth into account. On an acreage basis, the company screens as inexpensive vs. peers, particularly in the context of the recent QEP transaction. With its large contiguous acreage block, it is a clear candidate for consolidation. —Michael Hall, CFA, **Robert W. Baird**

Hi-Crush Partners LP (HCLP; $20.52 – Sept 7.; Overweight; PT: $24)

Initiating coverage: We believe HCLP can achieve top tier growth, led by visible drop downs and a fixed price take or pay contract structure. **We forecast HCLP will be able to grow its distribution at a 4-year CAGR of 10.2%, initially led by the drop down of the company's recently completed Augusta facility. This contribution could essentially double the company's asset base, processing capacity and cash flow trajectory.** We forecast continued demand growth. HCLP's current customers (Halliburton, Baker Hughes, Frac Tech and Weatherford) represent ~50% of the pressure pumping market and strong credits. We believe Hi-Crush's corporate structure, combined with a conservative balance sheet and fully available $100 mm credit facility will provide financial flexibility in executing transactions accretively. While not factored into our model, we also forecast that HCLP will be in a position to complete third party acquisitions in what is largely a private industry. Largest risks include supply and pricing. However, assets sequentially developed at the parent level, along with sub-spot contract pricing and 1.2x distribution coverage should mitigate the bulk of this risk, in our view. —Richard Gross, **Barclays**

Venoco, Inc. (VQ; $11.73 – Sept 7.; Overweight; PT: $12.50)

Before market open Friday, VQ announced an updated financing plan for the CEO's planned take-private transaction. DPC (Denver Parent Corporation, an affiliate of the CEO) seems close to getting the deal done. It upsized the second lien term loan based on strong interest. The implied return to the take-private price is 6.6% from last Friday's close. The CEO, who owns over 50% of the stock, announced his plan to take private the company over a year ago. We had been skeptical that he could raise the financing to get the deal done. **The CEO appears on the verge of finalizing the financing to complete the deal. We are increasing our Dec-12 price target to $12.50/share (take-private price) from $7.50/share and upgrading to Overweight. Still risk of no deal but small risk, in our view.** Friday's closing price seems to imply a 90% chance of a successful deal (at $12.50/share) and a 10% chance of no deal (and the stock trading down to JPM NYMEX NAV around $5.50/share). —Joseph Allman, CFA, **JP Morgan**

GULF COAST

SOUTHEAST TEXAS PROPERTY

12-Active. 20-PUD&Prosp. 8,000-Acres.
RACCOON BEND FIELD
AUSTIN & WALLER COUNTIES
Upper Wilcox Formation.
Rights 5,000 Ft & Below.
Prospective Areas Incl: Jackson, Sparta
OPERATIONAL CONTROL
Gross Production: 750 BOPD
Avg (RB Wilcox) Prod: 400 BOPD IP
Cash Flow: $2,000,000/Mn
Avg (RB Wilcox) Rsrvs: 300 MBO/Well
AGENT PREPARING PACKAGE
PP 1642DV

PP
750 BOPD

PERMIAN

PERMIAN BASIN PROPERTIES

65-Active. 4,564-Net Acres.100% HBP
NORTHERN CROCKETT COUNTY
PROLIFIC WORLD FIELD
Grayburg Formation. 2,700 to 4,500 Ft.
SIGNIFICANT UPSIDE POTENTIAL
LOW RISK DRILL OPPORTUNITIES
~100% OPERATED WI; 80% NRI
Current Net Prod: 302 BOPD (Grayburg)
LONG LIFE - SHALLOW DECLINE
Net Operating Cash Flow: $480,000/Month
Total Net Proved Reserves: 2.7 MMBO
Additional Probable Reserves: 748 MBO
Total Net Reserves PV10: $48,300,000
Additional Net PV10: $8,300,000
OFFERS DUE BY OCTOBER 11, 2012
PP 1987DV`

PP
302 BOPD

PERMIAN PROPERTY FOR SALE

PLS

8-Wells. 8- PUDs. <1,000 Acres
SOUTH WOLFCAMP CORE
Offset Area Being Actively Drilled
100% OPERATED WI; 75% NRI
Gross Production ~300 BOED
Proven Area - Established Reserves
CALL PLS FOR CA & MORE INFO
PP 9200DV

PP
~300 BOED

JEFF DAVIS CO., TX PROSPECT

61,520-Acres Leased/Optioned.
PERMIAN BASIN
Objectives Include: Capitan Reef, Word --
-- Leonard, Hess, Wolfcamp
100%OPERATED WI; 75% NRI
AGENT WANTS OFFERS OCT 16, 2012
DV 1086

DV
DV

WEST TEXAS ACREAGE

PLS

1,800-Gross/Net Acres.
CRANE & ECTOR COUNTY. PERMIAN BASIN
Leases Are ALL DEPTHS.
100% OPERATED WI; 75% NRI
New 3yr + 2yr Leases.
CALL PLS FOR INTRO TO SELLER
L 1061

L
PERMIAN ACREAGE

PERMIAN

PERMIAN BASIN SALE PACKAGE

62,322-Net Acres. 9-Vertical Producers.
TERRY & HOCKLEY COUNTIES, TX
HORIZONTAL WOLFCAMP
Spraberry, Wolfcamp & Cline.
Proposed Depths: 7,500 Ft. - 11,600 Ft.
MULTIPLE HORIZONTAL TARGETS
100% OPERATED WI FOR SALE
Initial Rates Range: 20-60 BOPD
~86% Acreage has Extension Options
OFFERS DUE SEPTEMBER 26, 2012
L 9191PP

L
WOLFCAMP

MIDCONTINENT

TEXAS & OKLAHOMA PROPERTIES

122-PUD. 36,000-Net Acres. >34% HBP
GRANITE WASH. WHEELER CO (TX)
BECKHAM & ROGER MILLS CO (OK)
5,000 Ft. Section. Multi Horizontal Targets
Net Sales: 3,000 BOPD & 17 MMCFD
Plus 1,800 Bbls NGLD
All Proved Undeveloped Acreage Is HBP
NPRsrvs:~19MMBO,117BCF,~12 MMNGL
PDP Rsrvs:4.8MMBO,41BCF,3.9MMNGL
Total Proved Rsrvs(PV10): $899,000,000
PDP Reserves(PV10): $312,000,000
CONTACT AGENT FOR UPDATE
PP 9507DV

PP
>3,500 BOEPD

OKLAHOMA SALE PACKAGE

150-Wells. 62-Operated. 15,667-Net Acres.
CUSTER, DEWEY & ROGER MILLS
PUTNAM FIELD - WESTERN ANADARKO
Tonkawa/Douglas Interval. 7,800 Ft.
Cleveland Formation. 9,000 Ft.
28% NonOperated WI; 22% NRI (PDP Avg)
Net Production: 1,200 BOED (57% Liquid)
Average Net Cash Flow: $1,933,333/Month
Total Proved Net Reserves: 7.3 MMBOE
Prov+Prob Net Reserves: 10.2 MMBOE
Total Proved Rsrvs (PV10): $108,000,000
OFFERS DUE BY OCTOBER 23, 2012
PP 1019L

PP
~1,200 BOED

NORTH TEXAS PROJECT

244-Locations. >7,730-Net Acres.
TARRANT & DALLAS CO., TX
BARNETT SHALE PLAY
3-D Seismic Data Available
14-Units w/SUAs In Place. 8/14 Are HBP
100% OPERATED WI; ~75% NRI
8 Wells Drilled To Date.
Individual EUR's: 5.0-6.0 BCF/Well
Net Recoverable Reserves: 945 BCF
Proved PV10 Reserves: $338,300,000
OFFERS DUE BY SEPTEMBER 30, 2012
DV 9546PP

DV
BARNETT

MIDCONTINENT

SOUTH OKLAHOMA PROPERTY

289-Active. 80,000-Gross Acres.
GRADY, GARVIN & STEPHENS
CHITWOOD - KNOX AREA
CANA WOODFORD SHALE TREND
Sycamore, Woodford, Hunton, Viola, Hoxbar
Simpson, Deese, Morrow & Springer
OPERATED & NonOperated Wells
~14%-75% WI Available; ~11%-60% NRI
Net Prod: ~10.7 MMCFD & 342 BOPD
POSSIBLE HORIZONTAL DEVELOPMENT
Net Operating Cash Flow: $1,658,000/Month
Expected EURs: 1,447 MBOE/Well
EURs After Processing: 2,102 MBOE/Well
Net Reserves (PV10): $10,900,000
Completed Well Cost: $9,000,000
OFFERS DUE BY OCTOBER 10, 2012
PP 1992L

PP
10,747 MCFD

ROCKIES

ROCKY MOUNTAIN LEASEHOLD

4,251 Net-Leasehold Acreage.
NORTH DAKOTA & MONTANA
DUNN & MOUNTRAIL CO., ND
ROOSEVELT CO., MT
Bakken Shale & Three Forks.
OPERATED WI FOR SALE (Lease)
CONTACT AGENT FOR UPDATE
L 1573

L
ACREAGE

WYOMING PROPERTIES

43-Active. 11-SI. 8-PUD. 31,900-Acres.
POWDER RIVER BASIN
PORCUPINE & TUIT DRAW FIELD
Incl: Muddy, Sussex, Turner Formations.
Horizontal & Vertical Development.
MultiZone UpSide Potential.
Low Risk Development-HBP Leasehold.
Avg ~73% OPERATED WI; ~59% NRI
Gross Prod: 70 BOPD & 950 MCFD
Net Production: 44 BOPD & 561 MCFD
Est (2013)Net Cash Flow: $1,800,000/Mn
Net Prov Rsrvs: 411 MBO & 4,933 MMCF
Net P+P Rsrvs: 3,017 MBO & 22 BCF
Net Prov Rsrvs(PV10): $17,988,000
AGENT WANTS OFFERS OCT 15, 2012
PP 2169HZ

PP
93,000 BOED

WEST COAST

KERN CO., CA PROSPECT

Drill Exploration Well.
SAN JOAQUIN BASIN
RAVEN PASS
Large Cretaceous Anticline.
Well Defined by Surface Mapping.
1,500 Ft. Structural Relief.
OPERATED WI AVAILABLE
Est Reserve Potential: 200+ MMBOER
CONTACT AGENT FOR MORE
DV 1828

DV
ONSHORE