NAVIGATING THE GROWING FAULT LINES IN THE GLOBAL ENERGY SECTOR

BY DREW LOCKARD, MANAGING DIRECTOR, STRETTO,
THOMAS CHARLES SCANNELL, PARTNER, FOLEY & LARDNER LLP
& ZACHARY C. ZAHN, ASSOCIATE, FOLEY & LARDNER LLP

To say the oil and gas industry is boom or bust is an understatement—the industry practically invented and perfected the term. According to recent reports from the Alpha Sense, S&P Global, and other industry analysts, the global energy sector has entered a period of pronounced instability as it grapples with the impact of the Iran war, commodity price volatility, domestic and international political events, and general economic headwinds. With the addition of margin compression and capital scarcity, the upstream and oilfield services industries face a troubling increase in potential distress.

As distressed energy companies evaluate their path forward, corporate restructuring may be among the strategies they consider to navigate uncertain and unfavorable economic climates. In fact, many players in the energy sector have resolved their financial, legal and operational challenges and emerged as leaner and more profitable enterprises by undergoing Chapter 11 bankruptcy.

Corporate Restructuring as a Path Forward

Throughout recent history, corporate restructuring has offered distressed energy companies a strategic path to address balance-sheet problems and operational challenges. During the commodity-price downturns in 2014-2015 and the COVID-19 era, bankruptcy filings across the upstream, midstream and oilfield services sectors reached record-high levels. While it is difficult to forecast when the next downturn will hit, companies and their advisors can apply lessons from these past cycles and prepare to utilize corporate restructuring tools to turnaround their company's finances before distress becomes unmanageable.

An increasing number of companies are turning to out-of-court restructuring strategies, such as liability management exercises (LMEs) and middle-market transactions, to right-size balance sheets before a full-scale bankruptcy becomes necessary. These approaches typically involve smaller-scale, negotiated deals aimed at minimizing liabilities,

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improving liquidity, and restructuring debt obligations while preserving value and reducing execution risk.

However, bankruptcy remains a sound, strategic option for many companies seeking financial recovery and stability, especially for those with substantial liabilities. The Southern District of Texas offers numerous useful examples to illustrate this strategy. A study of the Houston Division's docket over the last five years shows how dozens of companies have used the Chapter 11 process to pursue Section 363 asset sales, minimize decommissioning liabilities, and preserve value from a variety of different forms of significant pre-bankruptcy litigation and vendor claims. The Southern District's precedent illustrates how a court-supervised restructuring can create a centralized forum for resolving operational, environmental, litigation, and balance-sheet issues that might otherwise compete for limited liquidity outside of bankruptcy. It also underscores the importance of entering the process with a clear sale strategy, a realistic assessment of plugging and abandonment exposure, and a plan to monetize assets that may not be reflected on a traditional balance sheet.

Not every energy restructuring follows that pattern. Cases can become value-destructive when a company waits too long to engage stakeholders, enters bankruptcy without a realistic liquidity runway, or underestimates industry-specific liabilities such as decommissioning obligations, midstream contract commitments, commodity hedges, bonding requirements, and regulatory approvals. In those situations, the filing may shift leverage to secured lenders, trade creditors, regulators, or contract counterparties and leave the debtor with limited room to pursue an orderly sale or standalone plan. A better approach is to assess the likely restructuring path before liquidity is exhausted, socialize the strategy with key creditor constituencies, and develop a record that explains why the proposed process maximizes value for the estate.

Key Considerations for Energy Companies in Distress

As corporate restructurings are often long, expensive, and met with challenges, energy companies that are at risk of insolvency should evaluate a range of factors to help inform and guide their decision as to whether corporate restructuring is the right path forward.

Watch for Warning Signs: As financial distress builds within the energy sector, companies need to be on the lookout for signals indicating they may be entering the "zone of insolvency." Although there is not an exact threshold for when an energy company may be reaching this level of distress, typical indicators include difficulty meeting debt obligations as they mature, liabilities surpassing asset values, insufficient liquidity, and transactions that leave the company with minimal remaining capital. Once a company is operating under conditions of insolvency, its directors and officers take on broader fiduciary responsibilities to shareholders and creditors. When these pressures indicate that insolvency is a meaningful possibility, leadership should assume the company may already be operating in the zone of insolvency and should adjust decision-making accordingly.

Develop a Preliminary Action Plan: Companies in distress, or operating in the zone of insolvency, should take proactive steps to position themselves as favorably as possible. This often requires management to take a candid, critical look at the business and may involve managing cash flow and liquidity on a daily basis, ensuring payroll obligations are met, furloughing nonessential personnel, and cutting other costs. Companies should also stay current on liens against company assets and, where appropriate, consider securing liens on third-party assets that may be at risk of default. It may be advisable to also implement financially responsible policy changes, such as reducing discretionary spending and expenses, and conducting a thorough review of the company's financial books to ensure they are complete, accurate and well-organized.

Retain Experienced Professionals and Service Providers: Navigating the complexity of corporate restructuring successfully requires substantial legal, financial, operational, and administrative experience. Law firms and financial restructuring advisors play a crucial role in helping companies evaluate their turnaround options. Additionally, depending on the company's circumstances, claims and noticing agents, investment bankers, operational consultants, environmental advisors, and communications professionals may also be needed to manage the back-end administrative responsibilities, sale processes, operational diligence, and stakeholder communications that arise in restructuring. Time is of the essence when solvency is at stake, so it is critical to enlist the right support early and before it becomes urgent. By doing so, companies can save both time and money while protecting long-term viability.

Build a Restructuring Team with Energy Sector Expertise: The energy industry comes with its own set of distinct challenges, regulatory obligations, technical terminology, and operational realities that are best understood by professional teams with sector experience. Partnering with firms and advisors who understand these industry nuances can reduce the learning curve, improve communication with management and field personnel, and avoid inefficiencies that may come with working with teams that lack the appropriate background.

Stress-Test Liquidity and Near-Term Cash Needs: For turnaround professionals, liquidity is often the first and most practical indicator of how much flexibility a distressed company really has. Energy companies should develop a rolling cash-flow forecast that accounts for commodity-price sensitivity, hedging obligations, vendor pressure, royalty payments, lease operating expenses, and potential capital expenditures needed to keep assets producing safely. A credible liquidity forecast can help determine whether the business has enough runway to pursue an out-of-court transaction, needs financing, or should prepare for a Chapter 11 process supported by debtor-in-possession financing or cash collateral use.

Engage Key Stakeholders Before Options Narrow: Restructurings often move more smoothly when lenders, major trade creditors, contract counterparties, royalty owners, and regulators understand the company's proposed path before a filing or transaction is launched. Early engagement can identify potential objections, operational constraints, and build support for a sale, exchange transaction, forbearance, or plan of reorganization. It can also help management avoid making last-minute decisions under crisis conditions, when leverage and credibility may already be diminished.

Drew Lockard is managing director at Stretto. He brings expertise in corporate restructuring and turnaround management within the energy sector. Over the past 20 years, Lockard has studied energy supply-chain dynamics and global market consumption trends in various leadership and financial consulting roles. His areas of focus include financial advisory and dispute resolution analysis with a concentration in data analytics.

Thomas Charles Scannell is a partner at Foley & Lardner LLP's Dallas office, where he is a member of the Financial Restructuring and Reorganization Practice. Since his licensure, Scannell has devoted his practice to helping clients solve complex problems with distressed commercial assets. His practice focuses on the restructuring of companies in and out of bankruptcy, debtors' rights, committee representation, trustee representation, creditors' rights, landlords' rights, and representing debtor-in-possession financers.

Zachary C. Zahn is an associate at Foley & Lardner LLP, where he focuses his practice on energy litigation and bankruptcy/reorganization. Zahn leverages his advocacy skills to represent clients in a wide range of legal matters. His experience at Foley includes representing clients in various business litigation disputes in oil and gas, solar, construction, and corporate governance-related matters, as well as trust and estate disputes, commercial arbitrations, and settlement negotiations.

Account for Regulatory and Environmental Obligations: Energy restructurings rarely involve ordinary-course financial liabilities alone. Operators may need to address plugging and abandonment obligations, bonding requirements, environmental remediation exposure, title issues, lease-maintenance obligations, and agency approvals that can affect both value and transaction timing. These issues should be identified early because they may influence which assets are marketable, which contracts can be assumed or rejected, and whether a proposed transaction will be acceptable to regulators, buyers, lenders, and other parties in interest.

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Prepare for a Sale or Financing Process Before It Starts: If a company expects to seek new money or sell assets, management should organize well files, lease records, title materials, environmental reports, production data, hedging schedules, midstream contracts, and litigation summaries before a process is launched. A well-prepared data room can shorten diligence timelines, reduce buyer uncertainty, and improve credibility with lenders and potential stalking-horse bidders. For companies considering Chapter 11, that preparation can also support first-day relief, sale milestones, and a more defensible case timeline.

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For energy companies, the difference between a value-preserving restructuring and a value-destructive crisis often comes down to preparation: recognizing distress signals early, engaging the right advisors, understanding industry-specific liabilities, and choosing the path that best protects enterprise value. With a strategic and careful approach, restructuring can give companies a realistic chance to survive near-term disruption and recover when market conditions improve. J