2024 Year End Oil & Gas Report - A New Beginning

Brad Updike
March 6, 2025

After four years of inflation and a confused fossil fuels market that strived to make sense of the Biden administration's "War on Fossil Fuels," the U.S. exploration and production ("**E&P**") industry might now be able to breathe a sigh of relief in terms of government support with Donald Trump's presidential reelection. From the first day of taking office, the new GOP-lead administration took dead-aim at predecessor Biden's climate change and renewable energy policies by declaring a national energy emergency to help speed up fossil fuel development.

On the other side of the congressional aisle, Democrats claim that Trump's declaration was unneeded, given that the U.S. is producing more oil and natural gas than any other country and because Biden's Inflation Reduction Act boosted renewable energy at a critical time, creating jobs and addressing the threat of climate change threat (despite the fact that 2024 was the Earth's hottest year on record). Notwithstanding the banter back and forth from our esteemed congressional representatives, what is evident from these past 45-days is that the Trump administration is poised to make the U.S. a friendlier environment for oil and natural gas development through the following initiatives:

- **The liquid natural gas export pause is gone**. Last year the Biden administration paused approvals of new liquefied natural gas ("**LNG**") export terminals, which pleased environmentalists that were concerned that growth in such exports would contribute to planet-warming. The pause didn't stop projects already under construction, but it delayed consideration of new projects. In late January 2025, Trump reversed that pause, and in doing so, the U.S. is now expected to play a major role in meeting natural gas demand on a global scale, with its export capacity expected to double before 2030, according to the U.S. Energy Information Administration ("**EIA**").

- **Drilling permits on public lands**. Trump has opened more land for oil and gas lease sales, shifting away from the Biden administration's efforts to protect environmentally sensitive areas. This development is expected to facilitate drilling in certain areas of the Mid-Continent (i.e., Permian and Anadarko Basins), as well as other lands controlled by the Bureau of Land Management.

- **Executive orders take aim at renewables**. Trump also targeted wind energy with an executive order to temporarily halt offshore wind lease sales in federal waters and pause federal approvals, permits, and loans for projects both onshore and offshore. Trump has also vowed to end tax credits for renewables as well.

In addition to the above-mentioned policies, **and from our viewpoint**, Trump's reelection should help to support a continuing presence of favorable income tax rules that were placed on the

chopping block by the Biden administration from 2020-2024 in respect to intangible drilling cost ("**IDC**") expensing and oil/gas depletion allowances (which are major selling points for retail-oriented drilling programs). Barring an unusual future change in Trump's energy priorities, these tax provisions should remain unchanged over the next four years.

Does government support always = E&P economic prosperity? Not so fast…

While the U.S. oil and gas sectors are positioned for better days **from a governmental regulatory and enforcement perspective**, **<u>not all</u>** energy thought leaders are on board with the notion that the Trump administration's promise to "Drill Baby Drill" will culminate in better economics within the oil patch. Tom Hille, an Energy Analyst and market information source to our firm, cautioned in a recent email communication to our firm on February 25, 2025, that oil/gas markets are positioned for a bumpy ride due to all the new governmental and political developments:

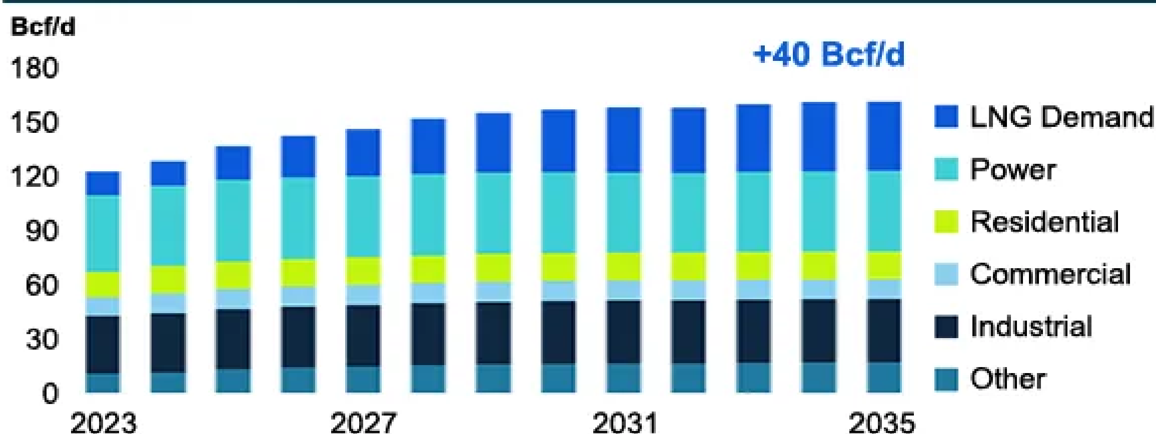
> … 2025 has started with the **jawboning volatility** that has roiled, confused, confounded and befuddled the Oil and Gas industry so much so that we end the first month right back where we started (just another example of the paper vs physical market dynamics at work). One month down, eleven more to go.
>
> Massive 'climate caused' wildfires in California, Ceasefire in Gaza with exchange of prisoners/hostages, the Inauguration of the new administration followed immediately by a blizzard of far-ranging Executive Orders (including a declaration of a National Energy Emergency), followed even closer by DeepSeek. **While all of this happened, there are numerous other "in the works" tariffs, sanctions, negotiations, confirmations that will have impacts on the markets.**
>
> Meanwhile, back in the patch, we have a few things to discuss. Oil with downside risk and Gas with upside risk, that we discussed last month, were both on full display this first month with both trading in their risked directions by more than 1 standard deviation. The 4th quarter Dallas Fed Survey drilled down on the widening chasm between the top tier operators and those of lower tier status by focusing on input costs, efficiencies, production and netbacks. As you can surmise, it does not bode well for the lower tiers (who are finally realizing that activity does not equal profitability). This same reality is coming for the oilfield service sector as evidenced by the fastest pace of Bankruptcy filings in recent memory. The bifurcated oil market of WTI Cushing vs Magellan East Houst is playing out, as discussed last year, with price differentials blowing out to MEH and Cushing tanks recording the lowest levels of storage since 2008. **The Gas market is being pulled in all directions at once with cold weather, egress issues, LNG export increases, and pipeline disruptions all competing for attention**.

Natural Gas Demand Picture

While there are many political-related developments for which the ultimate market outcome is not certain, we believe that a good argument exists that natural gas prices are positioned to move to a higher stabilized level over the next few years. This development is mentioned, to a small extent in the EIA's natural gas demand estimates for 2025 and 2026, which estimates gas

demand to grow from 102 billion cubic feet ("**bcf**") per day in 2024 to 105 bcf per day in 2025 and 106 bcf in 2026.

Acknowledging the EIA's sentiment for slight consumption growth, there is an emerging sentiment that longer-term consumption need for natural gas will actually fall somewhere between 120 bcf to possibly 130 bcf per day on an annualized basis over the next few years from LNG exporting, auto electrification, and from the construction of data centers (with some sources predicting the growth to eclipse possibly 150 bcf per day by 2035).[1] This sentiment was shared by multiple oil/gas industry leaders at the NAPE Expo LP Conference held in Houston, Texas earlier this year.



Note: TC Energy internal data suggests North American natural gas demand increases to 160 Bcf/d by 2035.
Source: TC Energy Corp.

We would be remiss not to acknowledge the recent developments surrounding DeepSeek Artificial Intelligence ("AI"), the technology of which is expected to significantly increase the efficiency of AI, while also reducing the need for natural gas usage, particularly in the power generation sector, as DeepSeek's capabilities can reportedly optimize energy consumption and potentially lessen the demand for new natural gas power plants due to its efficient processing of power. On this point, DeepSeek has reported in certain publications that its model uses roughly 10 to 40 times less energy than similar U.S. AI technology, a reduction that, if true, would seemingly cut the substantial need for energy-consuming data centers. **As such, and while our firm continues to feel positive about the direction of natural gas, the overall power demand effect of the recent data center construction explosion remains to be fully understood (i.e., which presents an element of risk as to how much natural gas will be required to support data center needs in the next few years).**

[1] Derived from Will Van Lowe's keynote discussion held during the Business Track Luncheon of the NAPE Conference in Houston, Texas on Feb. 6, 2025. Mr. Von Lowe is a Managing Director at Quantum Capital Group.

Oil & Natural Gas Markets

Over the past several years, Dan Steffans, President and Founder of the Energy Prospectus Group, has provided presentations at our energy conferences regarding oil/gas market developments. During his podcast during the 2024 holidays, Mr. Steffans shared his sentiments as to how Trump's reelection could affect oil/gas prices in 2025 and beyond. Due to the increasing demand for electricity in the U.S., Canada, and worldwide, Mr. Steffans views Trump's reelection as *bullish long-term* for natural gas, which is supported, in Mr. Steffans' view, by the new LNG capacity that is expected to come on-line over the next couple years as the result of Trump's favorable position on LNG exporting. In further support, Mr. Steffans stated that he foresees natural gas demand pressures coming from future bidding wars in which LNG exporters and utilities are forced to compete for natural gas in future years when winter weather patterns are near normal. Also, and as natural gas continues to displace coal as a power plant feedstock in the U.S. and Europe, Mr. Steffans views the long-term supply and demand prospects as being favorable for natural gas development. For underwriting purposes, Mr. Steffans suggested \$3.50-\$3.75 per thousand cubic feet ("**mcf**") as a reasonable pricing assumption for economic modeling purposes.

While Mr. Steffans acknowledged a *moderate* degree of bullish sentiment for oil in early 2025 due to recent worldwide refinery capacity limitations, **he did not believe that Trump's reelection would have a significant effect on oil prices**. Tempering expectations, Mr. Steffans characterized the 2024 oil price range of \$75-\$85 per barrel ("**bbl**"), in his view, as being an appropriate expectation for oil this year; with \$75 bbl viewed as a reasonable assumption for financial modeling purposes (in January 2025). On a comparative note, Mr. Steffans' pricing assumption for oil (\$75 bbl for Q1 2025) reconciles with recent survey data collected by the Federal Reserve Bank of Dallas relating to the oil/gas prices most companies are using to underwrite E&P capital spending projects (i.e., with \$70-\$75 bbl for oil being the most common price used by the surveyed E&P managers in the survey published January 2, 2025). On this point, the markets have recently priced oil within a range of \$65-70 bbl on the assumption that U.S. crude production will eventually hit 14 million bbls per day before drawing back some in late 2026 and 2027. A summary of selected oil/gas pricing information is provided below:

Oil	
WTI/Mar. 6, 2025	\$66.41 bbl
WTI/EIA 2025 Estimate	\$70.00 bbl (Brent -\$4)
WTI/EIA 2026 Estimate	62.00 bbl (Brent -\$4)
NYMEX Futures Q2 2025	\$67.50 bbl (3-Mo. Avg.)
NYMEX Futures Q2 2026	\$64.50 bbl (3-Mo. Avg.)

Natural Gas	
NYMEX/Mar. 6, 2025	\$4.30 mcf
EIA 2025 Estimate	\$3.80 mcf
EIA 2026 Estimate	\$4.20 mcf
NYMEX Futures Q2 2025	\$4.50 mcf (3-Mo. Avg.)
NYMEX Futures Q2 2026	\$3.80 mcf (3-Mo. Avg.)

E&P Cost Trends

From a cost perspective, we can report that well project budgets (referred to in our opinions as "**AFEs**") have stabilized in multiple resource plays, including the Bakken/Williston Basin, parts of central Oklahoma, Eagle Ford Shale, and Marcellus Shale Play. This should help to facilitate economic returns within these plays. **We note that drilling costs within the Permian Basin continue to remain at or above $60 bbl on a break-even basis, which could test the economics within the core and non-core (step-out) areas in the Midland and Delaware Basins.** Despite the higher finding costs, operating costs in the Permian Basin remain at manageable levels (e.g., $31 bbl Delaware, $38 bbl Midland), which may serve to help support returns in the core areas where drilling projects are being funded. A summary of drilling and operating cost trends is provided below (Source: Federal Reserve Bank Dallas, Jan. 2025):

Drilling Costs Break-Even	
Permian Delaware	$64 bbl
Permian Midland	$62 bbl
STACK/SCOOP (Okl.)	$65 bbl
Other U.S. Shale	$59 bbl
Other U.S. Non-Shale	$66 bbl

Operating Costs Break Even	
Permian Delaware	$31 bbl
Permian Midland	$38 bbl
STACK/SCOOP (Okl.)	$35 bbl
Other U.S. Shale	$34 bbl
Other U.S. Non-Shale	$45 bbl

Retail Capital Trends

In 2024, we covered 14 sponsor companies which operate within the upstream oil/gas sector and raised money from retail investors. This group collectively funded 24 private oil/gas programs that raised $1.441 billion to support drilling and E&P infrastructure, mineral interest acquisitions, and related projects. This represented a 17.50% year-over-year increase in capital funding from what was reported by these sponsors in 2023 (i.e., $1.226 billion). This also resulted in the highest capital raise year from the E&P sponsor group that we cover (i.e., since 2005).

Leading the way in terms of fundraising was U.S. Energy Development Corp. at $678 million, which was followed by MDS Energy at $197 million, and Mewbourne Development Corporation at $180.0 million. Collectively, and as was the case in 2023, these three sponsors accounted for approximately 73% of the capital raised by the E&P sponsor group we cover.

In terms of funding growth, about 50% of the sponsors from the E&P group reported either year-over-year gains in fundraising or stayed at about the same capital raising level as compared to 2023, which helped to continue the capital raising momentum that was established in 2021-2022 after the headwinds of COVID began to loosen its grip (i.e., with $273 million being the capital raise from the E&P group in 2020 during the pandemic year). A chart of the fundraising totals of the E&P sponsors we covered is provided below:

Table 1 – Capital Raised					
Company	**Strategy**	**2024 Raise**	**2023 Raise**	**2022 Raise**	**2021 Raise**
Mewbourne	Drilling-Horizontal Wells in the Permian Basin and Anadarko Basin	$180.0 MM	$180.0 MM	$250.0 MM	$119.80 MM
MDS	Drilling-Horizontal Wells in the Marcellus Shale Play	$197.0 MM	$196.0 MM	$225.0 MM	$146.92 MM
STL	Drilling-Marcellus Shale of East Pennsylvania	$25.0 MM	$31.0 MM	$42.50 MM	$29.50 MM
U.S. Energy	Drilling-Permian Basin, Powder River Basin, and Haynesville Shale Play; the QOF is an Opportunity Fund Seeking to Acquire Working Interests and Other Upstream Assets	$510.67 MM drilling; $102.0 MM QOF; $12.51 MM 1031 program; $53.08 MM Private Credit	$388.0 MM drilling; $80.0 MM QOF; $15.0 MM 1031 program	$267.93 MM drilling; $56.65 MM QOF; $8.10 MM 1031 program	$145.0 MM drilling; $45.0 MM QOF program
Waveland	Opportunity Fund Targeting Minerals and Non-Operated Working Interests in the Bakken Shale	$67.49 MM	$94.48 MM	$42.64 MM	$13.26 MM
Resource Royalty	1031 Program Acquiring Minerals and Royalties in STACK Play of Oklahoma	$17.15 MM	$29.59 MM	$32.90 MM	$11.07 MM
Montego Minerals	1031 Programs Acquiring Minerals and Royalties in the Permian Basin and East Texas	$67.49 MM	$77.0 MM	$62.20 MM	$19.73 MM
White Hawk Energy	Royalty Fund Acquiring Mineral Rights, Royalties, and Overriding Royalties	$20.40 MM	$21.20 MM	$65.70 MM	NA
King Operating	Sponsors Drilling and Leasehold Acquisition Programs	$81.63 MM	Not covered	Not Covered	Not Covered
Texakoma Resources, LLC	Drilling-Granite Wash Play in Tex. Panhandle; Horizontal Drilling for Oil/Nat. Gas	$26.30 MM	$32.0 MM	$30.00 MM	$20.00 MM
Texas Standard Energy	Drilling-Barnett Shale Combo Play in N. Tex.; Horizontal Drilling for Oil/Nat. Gas	$38.0 MM	$40.0 MM	$4.0 MM	NA
RG Partners Fund	Value-added workover and recompletion of leaseholds and oil production in north and east Texas	$42.0 MM	$2.0 MM	NA	NA
Unspecified	Two additional Reg. D sponsors also collectively raised equity for Mid Con. Based E&P projects	$1 MM	$40.28 MM	NA	NA
Totals		**$1.442 bil.**	**$1.226 bil.**	**$1.088 bil.**	**$550.27 mil.**

2024 E&P Capital by Strategy	
Total Capital	$1.442 bil.
Contributing Sponsors	14
Drilling	$995 mil. (69%)
Opportunity Funds	$329 mil. (23%) (includes a QOZ fund)
Minerals/Royalties	$118 mil. (8%) (most structured as direct interests)

Eleven Internal Revenue Code ("**IRC**") Section 1031 ("**§1031**") eligible programs were wholly or partially funded in 2024 by Resource Royalty, Montego Minerals, and U.S. Energy. These sponsor's combined to raise close to $100.0 million. In addition, White Hawk Minerals LLC continued the syndications of its common and preferred share offerings, raising close to $20 million. Based upon relatively stable oil pricing (2023-2024), as well as longer-term natural gas market developments, we think the royalty sponsor segment will hold serve in 2025.

In addition to the capital raised, as reported above, we reviewed several oil/gas sponsors that are expected to come out with retail products in 2025. These sponsors include Mountain V Oil & Gas (formerly in the retail market from 2004-2009 and now sponsoring an east Kentucky-focused oil recompletions program), Trellis Energy (non-operated drilling program), Rising Phoenix (royalty acquisition program for RIAs), Purified Resources (non-operated drilling program in Bakken Shale Play), and Matrix Petroleum, LLC (operated Eagle Ford Shale drilling program). In addition to these new sponsors, we have entered into agreements in Q1-2 2025 to review Eagle Eye Funds, as well as an RIA-focused leasehold acquisition and drilling program to be sponsored by King Operating. As such, **and while we cannot promise you that our sector will hit or eclipse the $1.5 billion capital-raising mark in 2025**, the presence of these new sponsors should help to keep capital raising levels at a level consistent with what we have observed over the past three years (i.e., $1 billion plus/minus).

Conclusion

It should be an interesting year for the sponsors we review in 2025 and 2026, with natural gas markets presently expecting upside as well as oil prices that are expected to remain at or possibly slightly below the levels we observed through most of 2023 and 2024 (with a broader $60-80 bbl price range expected by our firm and also by the E&P companies that responded to the Federal Reserve Bank's most recent E&P activity survey in Q4 2024). As we stated in our last few year-end reports, and regardless of product structure/strategy, cautious underwriting of a program's costs, risks, and reward will be more important than ever going into 2025-2026 based upon the volatility we are likely to see over the next few years. In view of Regulation BI's mandate for broker dealers and advisors to conduct careful due diligence concerning a product's costs, risks, and rewards, we continue to believe that careful day-to-day market analysis, as well as independent underwriting of targeted oil/gas projects will be key to any future success stories for financial service firms looking to sell non-traded oil/gas securities products this year and beyond.

P (402) 504-1710
www.micklawpc.com