PRACTICE NOTE

THOMSON REUTERS
PRACTICAL LAW™

Oil & Gas Asset-Backed Securitizations

by G. Michael O'Leary, Thomas Y. Hiner, and John J. Dedyo of Hunton Andrews Kurth LLP with Practical Law Finance

Status: **Maintained** | Jurisdiction: **United States**

This document is published by Practical Law and can be found at: **us.practicallaw.tr.com/w-038-1204**
Request a free trial and demonstration at: **us.practicallaw.tr.com/practical-law**

A Practice Note discussing securitizations of oil & gas assets including the assets best suited for this structure and the parties and documents involved in these transactions. This Note also discusses the factors driving the use of this structure and the benefits and challenges it presents to independent oil & gas producers.

Independent oil & gas producers often use reserves based lending (RBL) and high yield debt to finance their operations. However, in periods of economic uncertainty and commodity price volatility some producers have difficulty accessing these traditional sources of capital. This has been exacerbated in recent years as some commercial bank lenders have reduced their exposure to the upstream oil & gas segment in response to stakeholder concerns about climate change or to comply with or implement their sustainability strategies under their environmental, social, and governance (ESG) policies. Interest rate hikes are also increasing the costs of borrowing, rendering borrowing at commercially attractive rates unavailable for some of these producers.

Investor interest in high-yield notes offerings and traditional preferred and common equity offerings in this industry has also fallen as volatility has risen. Concerns about stranded asset risk and general uncertainty about the long-term viability of investments in the oil & gas sector as the energy transition continues apace are also affecting lender and investor interest.

With traditional sources of financing on acceptable terms being unavailable or insufficient to meet their capital needs, independent producers are increasingly turning to securitizations of their interests in oil & gas assets to fill the gap and generate the capital they need to finance their operations. Despite their inherent complexity, securitizations with their credit enhancing attributes have opened up a new source of needed capital for producers with significant proved developed producing (PDPs) properties.

This Note explains how some producers are using asset-backed securitization (ABS) to generate capital. It also discusses:

- The oil & gas assets that are best suited for a securitization.
- The benefits and disadvantages of these securitizations.
- How these transactions are structured including the key parties and documents involved in these transactions.
- Certain key issues independent producers and their counsel should consider when undertaking these transactions.

For information on the traditional sources of financing for oil & gas assets, see Practice Notes, Reserve Based Loans: Issues and Considerations, An Overview of Volumetric Production Payments (VPPs): Issues and Considerations, and High-Yield Indenture: What are Financial Covenants and Ratios?.

Basics of a Typical Securitization

A securitization is a credit-enhancing financial structure in which the owner of cash flow-producing assets (the sponsor) packages or pools some of these assets and transfers them (in a sale or a contribution of capital, or combination of both) in a transaction that constitutes a true sale or absolute transfer for purposes of the Bankruptcy Code to a newly formed, bankruptcy remote, special purpose entity (SPE). The SPE (also known as a special purpose vehicle (SPV)), concurrently with the transfer, issues notes in a Section 4(a)(2) private placement or a Rule144A offering to investors and uses the proceeds (net of certain fees and other agreed deductions) to pay the sponsor for the transferred assets. The SPE pledges its rights in and to the transferred assets to the investors as security for the notes.

THOMSON REUTERS®

The notes are non-recourse to the sponsor and the investors can only look to the securitized assets and the cash flows they generate to repay amounts owed under the notes. For more information on securitizations and a diagram illustrating the basic structure of a US securitization, see Practice Notes, Securitization: US Overview, Securitization: US Transaction Parties and Documents, and Securitization: The SPV.

Securitizations have traditionally been used to pool financial assets including mortgages, automobile loans, accounts receivable and in some cases future cash flows. The use of this structure to pool oil & gas assets is relatively new. Although a few oil & gas securitizations were consummated before 2019, independent producers have mostly relied on traditional capital sources for their financing given the liquidity available in the debt and capital markets. However, as these markets have tightened, securitizations are increasingly being considered despite the challenges they present (see Principal Disadvantages of Securitizations).

Structuring an Oil & Gas Securitization

An oil & gas securitization follows the basic premise of a standard securitization but there are key differences because of the nature of oil & gas assets. Unlike the assets typically included in a traditional ABS transaction:

- Oil & gas assets can have complex ownership arrangements that must be understood. Interests in oil & gas assets may be categorized in different ways giving the producer (and post-transfer, the SPE) different rights and obligations that must be reflected in the securitization documents (see Oil & Gas Assets to be Securitized).
- Oil & gas assets are subject to commodity price volatility leading to uncertainty regarding the amount of revenue the SPE may earn.
- An oil & gas securitization is a future flow securitization. The revenues underpinning the transaction do not exist at the time the transaction is completed. The hydrocarbons (crude oil, natural gas, and natural gas liquids (NGLs)) must first be extracted or produced, where appropriate, processed, and finally sold before revenue is generated. This means that the notes are secured by payments that have not been earned. The SPE expects to generate the amount needed to repay the debt by selling the production to which it is entitled in the normal course of operations.

Type of Offering

Securities offered and sold in the US are subject to registration with the Securities and Exchange Commission under the Securities Act of 1933, as amended (Securities Act), unless an exemption from registration is available. Oil & gas securitizations are typically structured to satisfy either a Section 4(a)(2) private placement or a Rule 144A resale, although most of the securitizations that have been consummated to date have been structured as private placements. Both methods constitute private offerings of securities to sophisticated investors, although they differ in significant ways, including types of investors involved and documents (see Differences Between Rule 144A and Section 4(a)(2) Offerings).

Rule 144A/Regulation S Offerings

Rule 144A provides a safe harbor for persons other than the issuer to resell eligible securities to qualified institutional buyers (QIBs). These are typically institutional investors, such as mutual funds and insurance companies. In this case, the SPE sells the notes to one or more underwriters (or initial purchasers) under a Section 4(a)(2) private placement, which then resell the notes to QIBs under Rule 144A. If any of the QIBs are non-US investors, these resales are made under Regulation S. For more information on Rule 144A offerings, see Practice Note, Resales Under Rule 144A and Section "4(1½)."

Section 4(a)(2) Private Placements

Institutional investors often participate in the private placement market under the traditional Section 4(a)(2) exemption from registration. In this case, they purchase the debt securities directly from the issuer and not from an underwriter. These sales are exempt from registration under the Securities Act if certain conditions are met. For more information on Section 4(a)(2) private placements and these conditions, see Practice Note, Section 4(a)(2) and Regulation D Private Placements.

Differences Between Rule 144A and Section 4(a)(2) Offerings

There are several significant differences between a Rule 144A offering and a Section 4(a)(2) private placement, including the number of investors typically involved, the documentation, disclosure requirements, and potential securities law liability. For more information on these differences, see Practice Notes:

- Unregistered Offerings: Overview.
- Practice Note, Conducting an Unregistered Offering: Overview.
- Section 4(a)(2) and Regulation D Private Placements.
- Preparing an Offering Memorandum: Rule 144A/ Regulation S Debt Securities Offerings.

Oil & Gas Assets to be Securitized

The oil & gas assets to be securitized should be limited to those that have low engineering and production risk and can generate reliable and stable cash flows to service the debt. An investment grade rating for the notes is a condition precedent to the closing of a transaction. To achieve this rating, there must be reasonable certainty that the oil & gas wellbores to be securitized can generate sufficient hydrocarbons to repay the debt. As a result, the reserves the producer sponsor transfers to the SPE should be PDPs (proven, developed and producing) wellbores with long production histories and low decline rates. They should also be geographically diverse, mature wells or a relatively similar set of assets with steady production expectations and minimal additional capital and operating expenses required to maintain production. For more information on these reserves, see Practice Note, Reserve Based Loans: Issues and Considerations: Categories of Reserves.

While the assets are limited to PDPs, the nature of the producer sponsor's ownership interest in these wellbores may vary. Interests in oil & gas assets can be delineated in a variety of ways. Examples include:

- Operating working interests.
- Non-operating working interests.
- Royalty interests.
- Overriding royalty interests (ORRIs).
- Volumetric production payments (VPPs).
- Net profits interests where an amount is paid to the mineral estate owner or investors only when a net profit is realized (after the deduction of all expenses).

Each of these interests in PDP wellbores may be transferred to the SPE and serve as the source of funds to service the notes. However, the producer sponsor's rights and obligations and therefore the SPE's rights and obligations post-transfer may vary significantly depending on the nature of the producer sponsor's interest. For example, in the case of an interest constituting a working interest, the SPE may be required to pay certain drilling and operating costs from the sale of the hydrocarbons produced from the securitized assets. By contrast, if the producer sponsor's interest is an ORRI, the SPE may be entitled to the proceeds without the deduction of these costs. The nature of the interests therefore affects the SPE's obligations, revenue, and amounts available to repay the notes.

For more information on these different types of interests, see Practice Notes, Oil & Gas Leases (TX), Overriding Royalties and An Overview of Volumetric Production Payments (VPPs): Issues and Considerations and Upstream Oil and Gas Company Structure and Players Flowchart.

An oil & gas asset securitization requires the isolation of the PDP wellbores assets from the producer sponsor (see Bankruptcy Remote). Accordingly, potential producer sponsors should consider whether the asset transfer to the SPE:

- Is permitted under their existing debt documents. If the producer sponsor is party to any RBLs or secured high yield debt where its assets are pledged to the lenders, it must obtain the necessary lender consents before it can transfer the assets to the SPE. Some producers have refinanced their RBL borrowings with the proceeds of their securitizations which decreases the use of their RBLs and strengthens their balance sheets.
- May result in a borrowing base reduction that may outweigh the benefits of the securitization. If the RBL facility is not repaid in full, the transfer reduces the value of the producer sponsor's reserves potentially triggering an interim redetermination of the borrowing base; although it is worth noting that the value attributed to the proposed PDP reserves to be subjected to the securitization often exceeds significantly the value attributed to same under the producer sponsor's RBL facility (see Advance Rate).

For more information on RBLs and the borrowing base, see Practice Note, Reserve Based Loans: Issues and Considerations: Re-Determining the Borrowing Base.

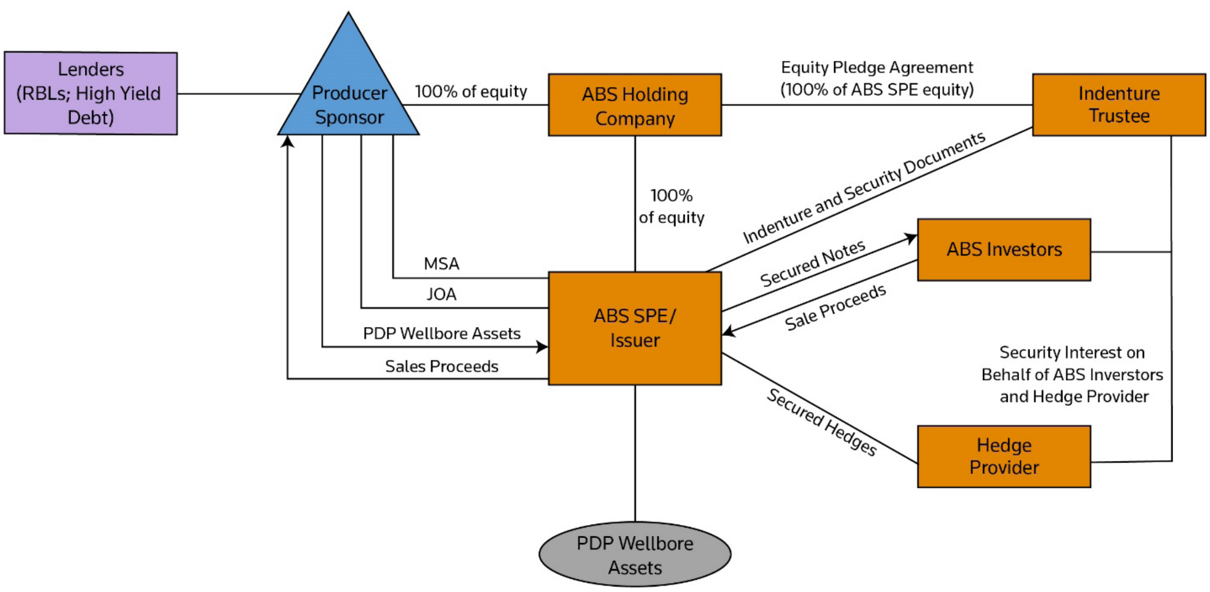
Key Parties Involved

The SPE's sole role in the oil & gas securitization is to hold the securitized assets and issue the notes. Any actions the SPE must take related to the assets and notes are performed by the producer sponsor or an affiliate under a joint operating agreement (JOA) and a management services agreement (MSA). However, the transaction involves several other parties besides the SPE and producer sponsor. These parties include a credit rating agency, various agents, and the following entities:

- **ABS holding company.** This is a wholly owned subsidiary of the producer sponsor which owns all of the equity interests of the SPE. The holding company pledges all of its interest in the SPE to the ABS investors as part of the securitization. In the case of a default by the producer sponsor, the ABS investors can exercise their rights under the equity pledge agreement and gain control of, or dispose of, the SPE and its assets.
- **ABS investors**. Oil & gas securitizations are drawing interest from a wide range of investors, including those not that have not traditionally invested in the oil & gas industry. These include insurance companies, large asset managers, pension funds, and other investors looking for an investment grade investment with stable cash flows or to diversify their ABS holdings.
- **Hedge provider.** ABS investors are solely relying on the cash flows generated by the oil & gas assets for repayment. A material decline in oil & gas prices reduces the SPE's cash flows and may seriously jeopardize its ability to make the payments required under the notes. The SPE enters into hedge agreements with creditworthy counterparties to minimize this risk and commodity price volatility. These hedges cover a significant percentage of the hydrocarbon and hydrocarbon products produced by the securitized assets during the expected life of the ABS notes and for some period thereafter, which may be a longer term than customary commodity price hedges. Depending on the transaction and the parties, the hedge provider may also be involved in hedging the producer sponsor's production under its retained oil & gas assets. For timing purposes, the producer sponsor or applicable affiliate that has the existing hedges on the oil & gas assets to be transferred may novate these hedges to SPE at closing. A full discussion of ABS hedges, including novation, are complex and beyond the scope of this Note. However, for more information on hedging, see Practice Note, Hedging Oil and Gas Production: Issues and Considerations and for more information on novation, see Practice Note, Novation, Accord and Satisfaction, and Substituted Contracts, and Standard Documents, Novation Agreement (Short Form) and Novation Agreement (Short Form) (NY).
- **Investment banks.** As with any other private placement or capital markets offering, investment banks function as structuring advisors and placement agents and arrangers in these transactions.
- **Back-up manager.** As discussed above, the producer sponsor operates the oil & gas assets under the JOA and performs various administrative and management services for the SPE under the MSA. If the producer sponsor breaches any of its obligations under the MSA, the ABS investors can replace it with the back-up manager under a back-up management services agreement.

The diagram below illustrates the basic structure of an oil & gas securitization.

Simplified PDP Securitization Structure



Principal Advantages of Securitizations

Oil & gas securitizations have several advantages over RBLs, high yield debt, and VPP interests. By selling its assets to the SPE, instead of drawing on its RBL facility or securing a second lien loan, a producer sponsor can secure the liquidity it needs for other parts of its business without increasing its debt load. Other advantages include:

- The producer sponsor can access new types of investors (see New Class of Investors).
- The SPE is separate from the producer sponsor (see Bankruptcy Remote).
- The securitized assets are of higher credit quality and have a lower risk profile than the producer sponsor's other assets (see Higher Credit Quality).
- The producer can secure a higher debt amount (see Advance Rate).

New Class of Investors

Because of its limited obligations and higher value assets, the SPE is more creditworthy than its producer sponsor and may therefore attract investors that would not otherwise be interested in the producer sponsor. Pension funds, insurance companies, large money managers, and other institutional investors that often participate in ABS deals in search of stable cash flows may also be interested in this product.

These investors also may not harbor the same reservations regarding energy investments that traditional oil & gas investors have developed toward the industry because of concerns related to sustainability and the clean energy transition. These investors also have significant capital they must deploy, which may make them more willing to tolerate some measure of increased risk as compared to more traditional securitization products, to earn a more attractive yield.

Bankruptcy Remote

The conveyance of the assets into the securitization transaction, if properly structured, should constitute a true sale so that if a bankruptcy proceeding involving the producer sponsor occurs, the transferred assets cannot be deemed to be a part of the producer sponsor's estate.

Achieving bankruptcy remoteness is problematic for executory contracts. It is therefore crucial to the true sale analysis that the interests being transferred to the SPE constitute real property interests for state law purposes, with the conveyance being recorded in governmental real property records. The SPE's governing documents should also include well-established separateness provisions to mitigate the risk of substantive consolidation with the producer sponsor if a bankruptcy proceeding occurs.

For more information on true sales and substantive consolidation, see Standard Document, Substantive Nonconsolidation and True Sale Opinion: Asset-Backed Securities (ABS) and Practice Note, Substantive Consolidation in Bankruptcy. For more information on executory contracts, see Practice Notes, Executory Contracts and Leases: Overview and Executory Contracts and Leases in Bankruptcy: Strategies for Non-Debtors.

Higher Credit Quality

Because the transaction requires the true sale or absolute transfer of a specific pool of PDP assets to a separate bankruptcy-remote entity, it shifts the focus of the investors' credit risk analysis from the health and operation of the producer sponsor to the financial performance of the SPE's isolated pool of assets. The notes' credit rating is based on the production risk profile of the underlying pooled assets with the credit quality of the producer being a secondary factor.

Accordingly, depending on the risk profile of the underlying assets, the structure of the securitization, the amount of collateral supporting the notes, and the costs and expenses that may materially affect the cash flow coming into the account of the SPE, the notes may be able to obtain an investment grade rating, even if other debt securities issued by the producer sponsor cannot achieve this rating. Limiting the asset pool to PDPs, for which only minimal capital and operating expenses are required in order to maintain production, increases the likelihood that the ABS notes can secure this rating.

Advance Rate

This is the percentage of the value of the eligible oil & gas assets that the lenders commit to the borrower. The advance rate in an ABS transaction is based on the PDP PV-10 and is typically 55% to 75%, much higher than that typically available in RBLs. This rate is based on an independent engineer's valuation of the assets set out in a reserve report. As such, it varies depending on the quality of the securitized assets.

Risk Mitigation

Depending on the size, location, and value of the PDPs that make up the securitized assets, the producer sponsor may not be able to sell the relevant interests. Pooling these assets into a single financial product spreads the risk of any individual asset and, accordingly, may attract more investor interest.

Advantages of Securitizations Versus RBLs

Unlike RBLs, securitization facilities do not include any risk of periodic redeterminations of the borrowing base. The interest rate and the amount borrowed under the securitization are determined at the time the facility is arranged and are not affected by future commodity price fluctuations. This feature may be particularly appealing to oil & gas companies grappling with redeterminations under their RBLs. Because of the potentially higher advance rates available in securitizations, the asset values assigned by investors in the securitization market typically exceed the borrowing base valuations employed by commercial banks in RBL transactions.

Other advantages include:

- The maturity dates for these ABS securities are typically longer than RBL maturity dates.
- The ABS notes are amortized. There is also flexibility to adjust the amortization schedule (see Terms of the Transaction).

For a chart summarizing the differences between oil & gas securitizations and RBLs, see Summary of Key Differences Among PDP Securitizations, RBLs, VPPs, and High Yield Debt.

For more information on RBLs and redeterminations, see Practice Note, Reserve Based Loans: Issues and Considerations: Re-Determining the Borrowing Base.

Advantages of Securitizations Versus High Yield Debt

Many oil & gas companies are finding the cost of capital implied by secured or unsecured senior notes too high. High-yield debt investors have increasingly soured on this industry and their lack of interest is reflected in their high cost and lack of availability. Securitization provides an avenue to lower cost debt while the high-yield debt market remains too expensive or even inaccessible to most independent producers. Because asset-backed securities generally have flexible refinancing terms, securitization facilities may be refinanced with high-yield senior notes when the high-yield market recovers.

For a chart summarizing the differences between oil & gas securitizations and high yield debt, see Summary of Key Differences Among PDP Securitizations, RBLs, VPPs, and High Yield Debt.

Advantages of Securitizations Versus VPPs

VPPs have been more widely used than securitizations by producers looking to raise capital from nontraditional financing sources. VPPs typically take the form of overriding royalty interests over a certain term, but may also consist of other oil & gas interests.

Pure VPPs have many similarities to securitization facilities, but also differ in significant ways. For instance, like securitizations, properly designed VPPs get beneficial treatment under US bankruptcy laws and are not subject to redeterminations of a borrowing base. However, VPPs may not be as appealing as securitizations to ABS investors for several reasons including:

- VPP transactions do not typically include the interest reserve accounts found in securitization facilities, which help reduce the risk of nonpayment should the anticipated cash flows generated by the underlying assets fall short of estimates.
- The tenor of VPPs are typically shorter than those of securitization facilities.
- Unlike a VPP, if the SPE fails to achieve a specific coverage ratio or production metric, the securitization facility may require a portion or all of the cash flows in excess of the debt service payments to be swept from the SPE's bank account and used to service its debt instead of being distributed to the producer sponsor.

A producer can also securitize VPPs to benefit from the advantageous features of both structures (see Oil & Gas Assets to be Securitized). For example, Riviera Resources, Inc. in 2019 transferred a VPP of quantities of helium to an SPE, which then issued notes and delivered the proceeds to Riviera (see Press Release, Riviera Resources Announces Closing of $82 Million Volumetric Production Payment Transaction ("VPP"))

For a chart summarizing the differences between oil & gas securitizations and VPPs, see Summary of Key Differences Among PDP Securitizations, RBLs, VPPs, and High Yield Debt.

For more information on VPPs and how they are structured, see Practice Note, An Overview of Volumetric Production Payments (VPPs): Issues and Considerations.

Principal Disadvantages of Securitizations

Although there are many advantages to pursuing a securitization, there are several disadvantages producers and their counsel should consider when evaluating this form of financing. They include:

- High level of complexity and transaction costs (see Complexity).
- Loss of proved reserves and reduction in producer sponsor's borrowing base (see Reduction in Borrowing Base).
- Ratings requirement (see Ratings Requirement).
- A prepayment penalty (see No-Call Period).

Complexity

A securitization is a more complex financing structure than more traditional oil & gas financing structures, resulting in higher transaction expenses. The ratings process also extends the time needed to complete a securitization as compared to traditional financings because of the many factors that must coalesce before the ratings are issued, including:

- Conducting title due diligence on all the assets. While in a typical RBL transaction, title due diligence may apply to 80% to 90% of the assets and often can be completed post-closing, this process must be completed as a condition precedent to the closing of the ABS transaction.
- Putting hedges in place to mitigate commodity price volatility.
- Carefully reviewing the producer sponsor's existing debt documents to ensure they do not prohibit a securitization transaction. If there are existing prohibitions, an amendment of these agreements may be required, extending the time to completion.

However, once the securitization facility is arranged, it is typically much easier to replicate it for future funding needs. Several of the companies that have completed securitizations entered into several more within a relatively short time period. For example, Diversified Energy closed four securitizations in 2022. The first was in February, quickly followed by another later in February, in May, and in October.

Ratings Requirement

Most ABS investors require that the notes be rated by one or more nationally recognized credit rating agencies. The arranger in the securitization may apply various credit enhancement techniques to improve the securities' credit rating and make them more appealing to certain types of investors (see Practice Note, The Securities Issued in a US Securitization: Credit Enhancement).

Reduction in Borrowing Base

Inasmuch as securitizations fundamentally depend on the SPE and the transferred assets being outside the credit of the producer sponsor, securitizations reduce the producer sponsor's proved reserves available to support its own borrowings away from the securitization during the term of the indenture.

No-Call Period

PDP securitization transactions typically include a no-call or make-whole provision, which assesses a penalty if the notes are paid before their maturity date. Prepaying the ABS notes may therefore be costly, if not precluded. However, most securitization structures are portable if the sponsor is transferred as a whole (the operator and manager entities are also transferred with the SPV). A sponsor should be aware of the potential difficulty and costs of unwinding the structure shortly after implementation.

Diverse Asset Pool

Diversification of the underlying assets is a key consideration for rating agencies. Independent oil & gas companies that are a pure play in a single basin may not be able to obtain optimal pricing or their desired credit rating due to an inability to pool a diverse set of underlying assets. For example, Raisa Energy LLC in:

- 2020 combined 700 non-operating wellbore interests that spanned five states and operated by 35 different operators.
- 2022 closed the industry's first Oil and Gas Master Trust Securitization Program which involved a diversified portfolio of non-operated working interests and royalty interests consisting of more than 3,000 wellbores under more than 50 operators located in more than 20 counties.

In each case, the notes received an "A" investment grade rating.

For more information on different basins, see Practice Note, US Oil & Gas Industry: Overview.

Hedging Requirement

Another issue posed by securitizing oil & gas interests is the risk of commodity price fluctuations to which the underlying assets are subject. To mitigate this risk, companies should expect to hedge a significant portion of the SPE's production over a lengthy period. For example:

- as part of its second securitization facility in April 2020, (Diversified Energy Company PLC (formerly, Diversified Gas & Oil) hedged 85% of its SPE's production for a period of ten years.
- Terra Energy Partners LLC closed a securitization in December 2022 that requires hedges covering 85% of NGL exposure for the first three years. Hedges for 85% of the natural gas exposure is required for first three years but falls to 80% during the next two years.
- Jonah Energy closed a securitization that requires hedges covering about 80% of its gas and oil production for about 6 years and NGLs hedges for two years.

However, in the current volatile commodity price environment, effective hedging may prove to be difficult to obtain. Consequently, hedging may have to be arranged with a creditworthy counterparty outside the established hedging market. Significant difficulties securing hedge counterparties may limit the growth of this financial instrument.

The hedge counterparty is also a secured party under the indenture and security documents. These parties may also be higher in the payment waterfall, adding to the complexity of the negotiations.

Terms of the Transaction

Payment and Waterfall

Revenues earned from oil & gas produced from the securitized assets are distributed according to a waterfall under which obligations are paid according to an agreed distribution order. The exact nature of the distribution varies depending on the nature of the interests in the pool. For example, if the transaction includes working interests, the SPE is responsible for a portion of the exploration, drilling, production and completion and operating costs which must be contemplated in the waterfall distribution. By contrast, if it a non-working interest, for example an ORRI, the SPE is not liable for any production costs.

The obligations typically included in the waterfall include:

- The SPE's obligations to pay any expenses related to the assets.
- The producer sponsor's servicing fees.
- Debt service on the notes.
- Any amounts needed to fund the reserve accounts.

The producer sponsor may receive distributions after all other amounts have been paid subject to blockage provisions that may require the deferral of payments under certain circumstances.

Reporting Requirements

In a securitization, the producer sponsor operates the assets and reports to the ABS investors, similar to the reporting requirements of an RBL, but these reporting requirements are more robust than those included in a typical loan, particularly around monthly cash flow statements. ABS investors also require a detailed accounting of revenue and disbursement of funds through the waterfall.

Key Oil & Gas Securitization Documentation

The main documents in an oil & gas ABS transaction include:

- The indenture.
- A transfer agreement to convey or transfer the producer sponsor's interest in the assets to be securitized to the SPE.
- A JOA.
- An MSA and a back-up MSA.
- An equity pledge agreement.
- Mortgages and related security documents.
- ISDA® agreements (see, for example, Practice Note, Understanding the ISDA® Master Agreement and Schedule).

Securitizations and ESG

Depending on the needs of the producer sponsor and the investors, the transaction can incorporate ESG principles. Diversified Energy Company PLC closed several transactions in 2021 and 2022 that align with the Sustainability-Linked Bond Principles including:

- In October 2022, it closed a $460 million securitization of certain co-owned producing natural gas and oil assets located in Oklahoma. The terms of the issuance are linked to key performance indicators (KPIs) based on emissions reduction targets. This facility has a fixed coupon of 7.50%.

- In May 2022, it closed a $445 million securitization of substantially all of its remaining unsecuritized natural gas and oil assets in Appalachia. This financing is also linked to KPIs based on emissions reduction targets.

For more information on these principles, see Practice Note, Understanding Sustainability-Linked Bonds.