

# The Wharton School – University of Pennsylvania

## Energy Finance

**FNCE-256 :**

**TR 1:30PM-3PM SHDH 107**

**FNCE-756 (MBA):**

**TR 9AM-10:30AM SHDH 105**

**TR 10:30AM-12PM SHDH 105**

**Spring 2018**

### **PROFESSOR JEROME TAILLARD**

Office: TBD (will be in SHDH)

Office Hours: Tuesdays and Thursdays (hours 3PM-4:30PM), or by appointment.

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TAs: Sarabmeet Kallar and Paul Decaire

## **1. Course Overview**

The objective of this course is to provide students with detailed knowledge of **corporate structures, valuation methods, project finance, risk management** practices, **corporate governance** issues, and **geo-political** and **technological risks** in the **energy industry**. In general, this course seeks to provide students with an overall context for understanding energy issues and risks, and how these might affect financing and investment decisions for both providers of energy and end-users of energy.

## **2. Course Format**

**Classes:** Classes will be comprised of both lectures and case discussions, with the first part of the term weighted towards lectures and the latter part of the term weighted towards case discussions.

**Grading:** Grades in the course will be based on:

- Team case memos (20%)
- Team focus cases (10%)
- Team term project/presentation (20%)
- Mid-Term Exam (25%)
- Class participation (25%)

**Team Case Memos:** Students are expected to complete case memos (max two pages of text and two pages of exhibits) for six cases over the semester. The six cases can be chosen from the eight cases that are discussed in class. Each memo will be a written response to a set of questions associated with each case, which I will provide one week prior to the case memo due date. The case memo is due the day of the class discussion on the case. Student teams must stay the same throughout the semester and be comprised of a maximum of four students and a minimum of three students.

**Team Focus Cases:** This semester we will have one focus case. This case typically has been developed with alumni in the energy industry, and will entail more work than the case memos. The focus cases are required submissions, and are **not** counted as part of the six case memos.

**Team Case Presentations:** On dates in which cases are due, there will be one student PowerPoint presentation of the case. You should sign up in groups. A list of available slots will be given on Canvas, and slots are first come, first serve. If your group does a case presentation, you will automatically get 5 points towards your class participation. If a group does a “focus” case presentation, it will automatically get 10 points towards class participation. If a presentation slot remains empty prior to a case being due I will randomly allocate a team to present. Presentations are expected to last no longer than 15 minutes, present a basic overview of the case and the responses to the case memo questions. Focus case presentations are expected to be at least 20 minutes.

**Team Term Project:** The term project will be a detailed valuation and analysis of a current or hypothetical IPO or M&A energy transaction. Teams will be split into two different roles. One set of teams will represent the investment bankers on an energy deal, and present a valuation and analysis of the deal. The second set of teams will represent equity analysts/ investors and will present a valuation and analysis of the deal. The term project will be comprised of a written report and a classroom presentation, more details on the term project will be provided at the time the project is assigned.

**Mid-Term Exam:** The first half of the course is weighted towards classroom lectures. This material will be tested on a mid-term exam which will take place during class time. You may use a calculator (not a computer) for the exam. Make-up exams will only be offered in case of serious illness or a family emergency with official notification.

The exam is closed-book and closed-notes. Calculators are allowed and necessary for the exam, but no cell phones with calculators or laptops are allowed during exams. The exam is intended to be time-sensitive.

The exam times are non-negotiable. If you have a conflict, you must inform me by the end of the second week of the course (i.e. Please check now to ensure the exam times do not conflict with a religious holiday, etc.). If you think you will miss an exam (1) contact me as soon as possible and (2) bring reliable proof of absence (hospital receipt, copy of obituary, etc.). Without clear and hard evidence, you will get no credit and will not be allowed to retake the exam.

### **Mid-Term – February 22, in class**

**Class Participation:** Classroom participation is an important component of this course and will be based on attendance and lecture/case discussion contributions. One way to have a good class participation grade is to present cases and case memo questions/responses. Students should be prepared to discuss all cases, whether or not a write-up is required. Following current events as they pertain to energy markets is an additional avenue to get class participation. Students should have name plates out at all times.

**Prerequisites:** The prerequisites for the course are FNCE 203/726-Advanced Corporate Finance or FNCE 207/728-Corporate Valuation. Students who receive permission to enroll without the prerequisites are expected to review the relevant topics as necessary to meet the requirements of the class.

**Energy Finance “in the news”:** Each class will start with a discussion of a news related topic in energy. I will present a topic, but students are also invited to bring up recent energy items in the news to discuss. Good resources to look at would be *The Wall Street Journal* and *The Economist*. This is the place where technological risk (disruptions) and alternative sources of energy will be discussed in this course.

### 3. Course Resources

**Course Readings:** The main resource for this course will be the course pack and readings posted on Canvas. There are also recommended readings from Simkins and Simkins, *Energy Finance and Economics* (S&S).

**Course website:** The website for this course will be available on Canvas. In addition to the required readings from the course pack, I will post lecture slides and links to articles and other supporting material.

**Office hours and TA support offered:** In most cases the best ways to address your questions will be 1) come to office hours or make an appointment 2) ask your question on the message board or 3) ask me in class or 4) reach out to the TA.

I will only answer emails for simple administrative issues or minor clarifying questions (short responses), or to make an appointment if you cannot come to office hours.

### 4. Academic Integrity

Students are expected to follow the rules of academic honesty in this class. This means that examinations are to be the work of the individual student using only the material permitted during the examination. Regarding submitted assignments and projects, the work should be the work of *only the team members* reported on the front of the document. When a project requires you to produce a forecasting or valuation model, the use of a forecasting or valuation model not created exclusively by the student team for this course is a violation of the codes of academic integrity. In other words, **for all submitted assignments, you must start with an Excel spreadsheet which is at most populated with some raw data.**

**Please note that if you violate this policy, I will ensure that you are disciplined to the fullest extent provided for by Wharton and University policies on academic integrity.**

### 5. Course Outline

**Course outline:** A tentative outline of the course material and overview of the material is below. Note: Some of the material for this course may be changed over the semester. It is highly likely to have a number of changes with advance notice given in class and/or Canvas. **Some of the guest lectures might be held outside regular class location and time. The exam date will however not change!**

<b>Class</b>	<b>Topic</b>	<b>Readings/Deliverables Required is in Bold <i>Recommended is in Italics</i></b>
Jan 11 Class 1	Lecture: Course Introduction and Overview of the “Energy Value Chain”	<i>S&amp;S Ch. 1-3, Ch. 5</i>
Jan 16 Class 2	Lecture: Independent Exploration and Production Companies <i>Investments, Capital Structure, Dividend Policy, Valuation</i>	<b>EOG Reading EOG Investor Presentation (All)</b>
Jan 18 Class 3	Lecture: Master Limited Partnerships Pt 1 <i>Investments, Capital Structure, Dividend Policy, Valuation</i>	<b>MLP 101 posted reading BWP Reading</b>
Jan 23 Class 4	Lecture: Master Limited Partnerships Pt 2 <i>Investments, Capital Structure, Dividend Policy, Valuation</i>	<b>KMP Reading VNOM S-1 Reading</b>
Jan 25 Class 5	Lecture: Refiners, Petrochemical Companies, Utilities <i>Investments, Capital Structure, Dividend Policy, Valuation Sutton Bridge</i>	<b>PSX Reading Sutton Bridge Reading</b>
Jan 30 Class 6	Lecture: Integrated Oil Companies <i>Investments, Capital Structure, Dividend Policy, Valuation</i>	<b>XOM Reading XOM Investor Presentation (All)</b>
Feb 1 Class 7	Case: Kinder Morgan Buyout	<b>Case Memo Due Kinder Morgan Pt 2 Reading</b>
Feb 6 Class 8	Lecture: Energy M&A <i>Overview</i>	<i>S&amp;S Exxon-XTO acquisition Athlon-Encana Readings</i>
Feb 8 Class 9	Lecture: Energy M&A Pt 2 Case: DrillCo M&A <i>Oil Field Services Companies and Asset Sales</i>	<b>Drillco Reading (no case memo due)</b>
Feb 13 Class 10	Case: MW Petroleum <i>Energy M&amp;A</i>	<b>Case Memo Due</b>
Feb 15 Class 11	Energy Risk Management <i>Corporate Risk Management – Energy Derivatives</i>	<i>S&amp;S Ch. 15-16, Ch. 19</i> <b>CLR Readings</b>
Feb 20 Class 12	Case: Apache <i>Energy Derivatives</i>	<b>Case Memo Due</b>
Feb 22 Class 13	<b>***Mid-Term Exam*** In Class</b>	
Feb 27 Class 14	Lecture: Project Finance: <i>Project Finance, VPPs, Joint Venture Agreements</i> Case: BP Amoco (A) <i>Project Finance</i>	<i>S&amp;S Ch. 13</i> <b>ATP Readings BP (A) Case</b>
Mar 1 Class 15	Case: BP Amoco (B) <i>Project Finance</i>	<b>Case Memo Due</b>

Mar 6 Break	<b>Spring Break</b>	
Mar 8 Break	<b>Spring Break</b>	
Mar 13 Class 16	Lecture: Corporate Governance in Energy	<b>SD, CHK, HESS Posted Readings</b>
Mar 15 Class 17	Case: Chesapeake Energy (HBS Case) <i>Corporate Governance in Energy</i>	<b>Case Memo Due</b>
Mar 20 Class 18	<i>Guest Lecture Placeholder</i>	
Mar 22 Class 19	Case: Medco Energi Internasional <i>Corporate Governance in Energy (International)</i>	<b>Case Memo Due</b>
Mar 27 Class 20	Case: Energy Private Equity Pt 1	<b>Focus Case Due</b>
Mar 29 Class 21	Lecture: Energy Private Equity	
Apr 3 Class 22	Case: Energy Private Equity Pt 2	<b>Focus Case Due</b>
Apr 5 Class 23	Case: Petrozuata Pt 1 <i>International Project Finance/Energy Investments</i>	<b>Case Memo Due</b>
Apr 10 Class 24	Case: Petrozuata Pt 2 <i>International Project Finance/Energy Investments</i>	
Apr 12 Class 25	Case: Chad-Cameroon Petroleum Development and Pipeline Project <i>International Project Finance/Energy Investments</i>	<b>Case Memo Due</b>
Apr 17 Class 26	Term Project Prep – Make Appointments	
Apr 19 Class 27	<i>Guest Lecture Placeholder</i>	
Apr 24 Class 28	Presentation of Term Projects – By Appointment <b><i>Guest Audience (TBD)</i></b>	