IN THE stream
Ups & downs in the energy sector
A broad outlook

While the fundamental physical challenges facing the energy industry have not changed significantly, the current economic and regulatory environment makes the consequence of potential losses that much more severe.

Saudi Arabia and the price of oil

Research by NewsBase estimates that it will be at least two decades before US light tight oil’s annual capital expenditure reaches USD 100 billion again.

Liquified natural gas

The property damage and business interruption values of LNG facilities are huge, which often changes the owner’s global risk profile dramatically.

OIL: an interview

The challenge will be when falling E&P investment restricts the level of supply. This could lead to sharp swings in oil price unless shale producers – who have been successful in bringing down the cost of operations – can bridge the gap.

Exploration and production

Day rates for hiring a drilling rig are a third what they were eighteen months ago, offering potential for those sitting on low cost fields in the current environment.

Mergers and acquisitions

While M&A interest may be significant, buyers are cautious and banks are still reluctant to provide the necessary finance. Everyone seems to be circling, waiting for the best time to make their move.

Human capital

For organisations that intend to emerge as stronger players in their industry segment, now is the time to optimise their people-spend programmes.

Client interview: Theodore Guidry, Valero

Be prepared for the worst even when things are good. This means keeping a strong balance sheet, not leveraging too much debt, or gambling on exploratory projects.
TOP FIVE INDUSTRY RISKS AND OPPORTUNITIES

1. M&A – oil price headwinds; due diligence; and the transactional tipping point

2. Oil price fluctuations – uncertainty; impact on revenue, capex and investment; and adapting to a new norm

3. Environmental legislation – greater oversight; increased fines; and reputational concerns

4. Soft insurance market conditions – favourable pricing; enhanced terms and conditions; and considerable and growing appetite for risks

5. Deep water opportunities – huge, untapped potential; technological challenges; environmental exposures; huge capex requirement in face of depressed prices.
The oil and gas industry is facing a turbulent time. Exploration and production firms have faced a bruising few years; while those in the refining and downstream sector have seen their fortunes improve.

While the fundamental physical challenges facing the energy industry have not changed significantly, the economic and regulatory environment makes the consequence of potential losses that much more severe.

Increased pollution liability exposure in the wake of Macondo, operating in politically unstable jurisdictions, significantly higher abandonment obligations and the rise of alternative energy all serve to complicate the picture. For the majority, capex is well down from two years ago and most high capital projects have been shelved, with about the only exceptions being in liquefied natural gas. Companies are now looking for safer low cap investments to ride through the down cycle on oil and gas pricing.

The collapse in the price of oil has called many investments into question, as troubled revenues have put companies under severe financial strain. Many are cutting back on head count and capital expenditure, but what is apparent is that firms are looking at ways to best spend their risk dollars.

Insurance challenges
Fortuneately, there has rarely been a more robust insurance market. Capacity, pricing and breadth of coverage are all extremely favourable for energy clients, as are the opportunities to access innovative solutions. In the past, tough oil pricing cycles tended to synchronise with hardening insurance pricing, but not this time.

Today, the challenge isn’t finding affordable cover, but effectively selecting the best coverage from the many options available. Aon is helping clients to best navigate these choices and supporting them with innovative placement strategies. These are helping to deliver efficiencies through solutions such as Aon Client Treaty and our Global Upstream Facultative Facility, while dynamic risk modelling is enabling our clients to better understand their evolving risk exposures.

Aon is supporting clients with coverage that reflects the many challenges they face in the current environment – from transactional liabilities linked to M&A and cyber theft of intellectual property, through to the political risk of operating in challenging geographies and D&O coverage for key board decision-makers.

Work with us as we navigate today’s challenging waters.

Bruce Jefferis, Chief Executive Officer, Aon Energy (Aon Houston)
With LNG prices linked to oil, the viability of new LNG projects is being impacted by the low cost of crude and reduced demand for long term LNG tolling contracts. Many are having to re-run the numbers, as they look to renegotiate debt finance positions that have changed markedly since the days of USD 100+ barrels of oil.

S
ome firms have responded by pursuing hedging strategies, but current uncertainties and the depressed price of LNG make such an approach tricky. Those projects that are yet to come online, but that negotiated contractual terms when LNG prices were more robust, are facing particular difficulties.

Some are even questioning the viability of future projects that typically have a five-year lead time and are highly capital intensive. As a result, LNG firms are battening down the hatches in the immediate-term.

M&A is one potential response to current market conditions, but it appears to be rather muted. Due to the huge levels of investment required to develop LNG projects and the fact that most are considered operationally core, firms are tending to shed peripheral assets and concentrate on LNG operations where they are mixed operators. Those that had eyed the space in the recent past are baulking at the costs in the current environment.

What is apparent is that despite recent headwinds, interest in LNG development is nonetheless increasing among the majors as they seek to develop a balanced portfolio – one that seems all the more pressing in the current environment. With more cash to pursue their LNG ambitions and a diverse portfolio to weather the current oil price slump, some majors are sensing an opportunity despite the hurdles.

Challenging limits
The LNG sector has a great safety record and consequently generates a strong appetite from within the insurance industry. This results in broad coverage and favourable ratings from underwriters. But the large scale and exposure profile of LNG facilities can make securing sufficient coverage limits challenging.

The property damage and business interruption values of LNG facilities tend to be huge – particularly where facilities have multiple trains – meaning these exposures are often the most significant aspect of the owner’s global risk profile. LNG clients also face exposure to natural catastrophe risks in locations such as the Australian East Coast and the US Gulf Coast, where the accumulation of risks for windstorm in particular can create a capacity crunch in the insurance market.

Factor in lender requirements that often stipulate significant limits, the forward-selling of output and recent pricing fluctuations, and operators face a complicated picture when it comes to securing coverage limits.

Insurers are challenged to cover the magnitude of potential losses and broking such risks requires a complicated, syndicated placement that draws on global capacity from some of the world’s largest insurers.

A recent Australian project required capacity from Australia, Singapore, China, London and Europe in order to complete its placement, providing some indication of the significance of the global marketing of such projects.

Clients need to be cognisant of these issues and consider a five-year time horizon when considering coverage requirements for their exposures – a horizon that will likely include changing energy price, LNG appetite, and insurance market conditions.

“Insurers are challenged to cover the magnitude of potential losses, and broking such risks requires a complicated, syndicated placement that draws on global capacity from some of the worlds largest insurers”

- David Mittelholzer (Aon Houston), James Taylor (Aon London) and Clive Felton (Aon London)
To stabilize atmospheric greenhouse gas concentrations and global temperature, the world will need to transition to a low-carbon energy system.

- The International Petroleum Industry Environmental Conservation Association
Since the collapse in benchmark crude prices in Q4 2014, oil and gas organisations have cut more than 250,000 jobs globally. While the downturn in prices has touched all sectors of the oil and gas industry, its effects are not being felt equally by all companies.

Oil and gas companies continue to be cautiously optimistic about a turnaround in global and domestic commodity prices. Despite the fact that US production levels are expected to fall from 9.2 million barrels of oil equivalent per day (BOeD) to 8.7 million BOeD in 2016, some organisations have announced mid-year increases in their 2016 capital spending to reflect the increased profitability of projects at USD 50-60 a barrel. However, a backlog of uncompleted wells is likely to prolong the current low trading range.

Consolidation in the industry continues to build, likely leading to additional job losses through organisational synergies in 2017. Midstream organisations will continue to look for strategic alliances that increase revenue sustainability and cash flow growth, while upstream players look to acquire key acreage at opportune prices to fit with their core portfolios.

Reduced, but smarter spending
Aon Hewitt’s 2016/2017 US Salary Increase Survey, which includes more than 1,000 organisations across all industries, indicates approximately 33 percent of all the companies projecting pay freezes for 2017 are oil and gas organisations. Budgets for those providing increases are also substantially lower, with average budgets across the industry projected to be 2.7 percent of payroll, following budgets of 2.8 percent of payroll in 2016.

Like job cuts, pay freezes have hit the oilfield service sector harder than the industry as a whole, with 45 percent of these organisations freezing pay at the executive levels and 25 percent freezing pay levels across the organisation in 2016.

As many companies in this sector of the economy are making staffing reductions, having a pay freeze exemption for executives is unlikely to sit well with the rest of the workforce.

This is a brave new world for many oil and gas companies. With more limited base pay increase budgets and variable pay funding, calibration of performance across an organisation to recognise high performers and communicate the value placed on employee efforts will be key.

With 64 percent of the organisations surveyed planning to use supplemental cash incentives, discretionary stock awards and higher base pay increases to reward workers who perform at a particularly high level, firms may struggle to ensure their programs are working effectively to communicate the right messages to employees.

“"We can’t ignore the real changes that are happening in the world. Competition is increasing. Consumer and public sentiment is shifting. Waiting for the oil price to rise again is not sufficient – nor is short-term cost cutting”
- Bernard Looney, Chief Executive, Upstream BP
Reassessing your approach

While the decline in crude prices has soured headlines, the key issue is the continued demand for top talent in the oil and gas industry. Generational differences, coupled with shifting business priorities, are spurring oil and gas organisations to reassess their approach to how they attract and retain critical talent in the future.

Optimising spend on large capital expenditures such as infrastructure projects, drilling programmes and new technologies are top priorities, but oil and gas organisations also recognise the impact of incremental spend on people and programmes. Due to robust growth in the industry and a mandate to attract and retain talent, organisations have avoided difficult choices around optimising people-spend programmes. Instead, they have followed prevailing industry norms and a menu of lucrative programmes that appeal to all generations. The value proposition – or why employees join and stay with an organisation – was summarized by one HR director who said pay programmes were so rich, lower performing employees would likely never leave. For organisations that intend to emerge as stronger players in their industry segment, now is the time to optimise their people-spend programmes.

Joshua Ross (Aon Texas)
SAUDI’S DELICATE TIGHTROPE

The oil industry has been through a tough couple of years; beginning in the summer of 2014 when NewsBase Research (NBR) believes Saudi’s long-range planners identified a structural threat to its sovereign wealth fund posed by the stellar returns being generated by US light tight oil (LTO).

These returns, topping 75% at USD 105 per barrel, were fuelling a boom in LTO with investment capital seeking short-term returns. Saudi’s response was to create a strong and sustained structural oversupply in the global oil market, which drove prices down by 75%, hitting LTO returns and cutting off financial investors.

Tight oil’s response
At first, the strategy seemed to be working. However, by mid-2015 it became apparent that LTO had a riposte – service suppliers were squeezed on cost and a new focus on sweet spots was able to deliver more production for the same drilling cost. So, while LTO flows stopped growing, they did not collapse. Saudi continued its strategy of overproduction to sustain the low price environment.

The challenge is that Saudi’s strategy is expensive. We estimate that it is costing its sovereign wealth fund around USD 90 billion a year – and has already eroded a quarter of the USD 760 billion that it had at the start of its play.

However, it has not been a wasted strategy. Opportunistic investors drawn to the new LTO boom by high internal rates of return (IRR) and low perceived risks are now being deterred. Today, even if IRR grow again – and they will – investors regard LTO as an unpredictable price risk, driving up hurdle rates. And with a reduced flow of capital into LTO, NBR’s research suggests that it will be at least two decades before US LTO’s annual capex reaches USD 100 billion again.

Global supply and demand effects
The Saudi strategy has resulted in two unexpected outcomes. After two years of financial starvation, the expensive oil projects of its competitors are facing cuts. The deep water industry is deferring development plans across the board; Shell has abandoned its Arctic exploration programme having already committed nearly USD 7 billion; Maersk has put its deepwater Chissonga project in Angola on ice in order to focus closer to home; and Statoil has cut costs and delayed an investment decision at its Johan Castberg field in the Barents Sea.

Combined with other impacts elsewhere, such as oil sands, the net effect of this slowdown will be to take 6 million barrels per day out of future production by 2030, with 2015 levels at around 95 million barrels per day.

The second outcome is a temporary hiatus in demand-side efficiency improvements – the push to alternative energy - which had been running at around 1% per year.

Contrary to certain reports, the growing presence of electric vehicles will play little part in offsetting this recent demand boost.

At present, they displace a tiny quantity of liquids – around 30,000 barrels per day out of 96 million barrels per day. By 2026, that displacement will still be small – 600,000 barrels per day against global demand of 106 million barrels per day.

"We need more energy. We need to reduce emissions. And we need to make sure the required investments are made...A more balanced market is clearly beneficial to us all– both producers and consumers."

- Mohammad Barkindo, OPEC Secretary General
The effect of electric vehicles on demand will be seen most in developed economies first, but it will not be until the early 2030s that the impact is felt globally. Around that time, a tipping point will also come in the movement of shipping to LNG-propulsion. NBR expects this shift to gas to displace 1% of global oil demand in 2034, rising to 2% by 2040.

Saudi’s tightrope: what next?
At a USD 50 per barrel oil price, Saudi is divesting USD 90 billion of its sovereign wealth fund a year.

Saudi’s stance is not sustainable. NBR’s analysis suggests the country requires prices of around USD 80 per barrel to stop losses at current export levels.

With lower deep water and horizon flows and US LTO not returning to sizeable production growth until 2019 (400,000-500,000 barrels per day), Saudi’s strategy should start to evolve. But the road to recovery will be a delicate tightrope.

If Saudi starts the recovery too soon, it will not be able to sustain the price move upward without reigniting LTO and other supply sources.

To avoid this happening, we could see another year of USD 50 oil. Beyond that, there will emerge room to create a gentle structural undersupply for a decade or more, driving annual average prices up slowly but steadily.

Despite demand growth, it will be nearly a decade before there is room in the market for sustained USD 100 oil again. Even then, such a situation will coincide with the next set of equilibrium challenges, as previously delayed and deferred conventional projects and oil sands ramp up production in the mid-to-late 2020s.

For now, that leaves Saudi managing the equilibrium - and its sovereign wealth fund - with its attention firmly focused on LTO rates of return and capital inflows. If Saudi can manage the risk perceptions of financial investors in LTO successfully, then the oil industry will find itself in a more comfortable market by 2022. Before then, we have at least one more year of difficulty to endure.

Newsbase Research
E&P: IN SEARCH OF THE SILVER LINING

It is apparent that the exploration and production (E&P) segment has been hard-hit by the slump in oil price. In the US, a number of firms have filed for Chapter 11, while others have been targets for acquisition by larger energy players or private equity. In Australia, high mobilisation costs and geographic distances have squeezed the market still further, resulting in job losses and restructuring. Acquirers have been active where weaknesses or opportunities have been apparent, but despite the headwinds, the sector remains resilient.

The emphasis within the sector has been on retaining operator-level business, with firms keen to retain operational control in the current environment, and the pursuit of low cost business – locally for US firms and in geographies such as Africa for those in Australia.

A number of firms have been insulated from the precipitous fall in oil price thanks to extended hedging strategies that have provided commodity price protection as far ahead as 2017, but it is apparent that these strategies are coming to an end. Nevertheless, around USD 80 billion of private equity capital is eying the sector from the side lines and as the difference between bid and asking price has narrowed in recent months, an uptick in M&A is likely. For those not considering acquisitions, the focus is on developing known fields, rather than further exploration, and either a pursuit of synergies or a hunkering down until pricing conditions improve.

For those brave enough, there are opportunities. Day rates for hiring a drilling rig are a third what they were eighteen months ago, offering potential for those sitting on low cost fields in the current environment. Acquisitions are also attractive – it may be cheaper to acquire than to explore and produce – but many firms are waiting for the price to settle before considering synergies.

Leveraging the market
Risk transfer is proving invaluable to E&P players looking to transfer liabilities from their balance sheets into the insurance market and optimising cash flow in the face of difficult conditions. Reduced drilling activity, combined with extremely soft insurance market conditions, have allowed for substantial premium savings at a time when E&P companies have needed them most and it is apparent that many firms are eagerly seizing these opportunities as they search for levers of opportunity.

E&P companies are also turning to the insurance market as they pursue transactions and synergies in the current environment, with brokers and insurers providing firms with advice regarding issues such as due diligence and risk appetite. It is apparent that firms are keen to keep a close eye on both exposures and opportunities in a market that is being forced to adapt to a new norm.

“Some firms have been insulated from the precipitous fall in oil price thanks to extended hedging strategies that have provided commodity price protection as far ahead as 2017, but it is apparent that these strategies are coming to an end”

John Keely (Aon Houston) & Jerry Garner (Aon Sydney)
OIL: AN INTERVIEW

George Hutchings, Chief Operating Officer, OIL

OIL is a Bermuda-based mutual energy insurer that delivers cornerstone capacity to the industry.

What are the key pressures facing your members in the current environment?
The exploration and production (E&P) segment is facing the greatest difficulties, impacted by the precipitous fall in oil price, but refiners, pipeline and chemical companies have all been obliged to adapt to conditions.

For E&P companies, there has been a dramatic change in their cash flow situation, with many forced to rationalise operations and draw back on planned projects - particularly those offshore and in deeper waters where break-even costs may be north of USD 50 a barrel.

Refiners continue to experience decent margins, but these have come under pressure as more squeezed sectors have sought to renegotiate terms and pricing. The chemical sector has meanwhile benefited – from lower feedstock prices – while the pipeline sector has also faced headwinds due to defaults by some of their long term take-or-pay contracts and lower volumes being shipped.

The challenge will be when falling E&P investment restricts the level of supply. This could lead to sharp swings in oil price unless shale producers – who have been successful in bringing down the cost of operations – can bridge the gap.

How do you see the M&A environment at present?
The M&A landscape is at an interesting point. Looking at the activity of our members during the last period of low oil prices back in the 1990s, it was apparent that there was a two to three-year delay before they pursued transactions. While we cannot be certain the same will happen again, it seems likely that many firms are waiting for the oil price to settle before pursuing acquisitions. What is apparent is that there are some great deal opportunities out there for those willing to pursue them.

What impact have these pressures had on their insurance buying appetite and thinking?
There has been a dramatic reduction in the amount of business interruption coverage being bought, thanks to lower operational activity and reduced cashflows in the E&P sector. Instead, risk managers are being asked to find savings from their insurance programmes. They are aware that there is excess capital within the market and are looking to realise savings in their programmes. Some are buying less limit or reducing higher excess layers; reconfiguring the way they buy insurance in the face of the current oil environment.

Another interesting dynamic is the potential of insurance-linked securities (ILS) to complement existing insurance capital. This remains a way off, but OIL has already been approached by interested parties as the ILS industry develops indemnity-based structures that are closer in form to traditional insurance.

Oil and gas supply-demand dynamics will inevitably dictate future insurance appetite, as the industry searches for a new pricing norm. The rise of shale operators in the US and increasing efficiencies are serving to complicate matters; and I would anticipate them ramping up production should the price of oil begin to rise.

This will create a natural break on price increases; particularly as such operations can be brought online quickly and seamlessly. For operations in deep water or politically challenging environments, this additional capacity could prove a stumbling block to ongoing and future field development – shaping the focus of energy operations in the future.
M&A: ELUSIVE SYNERGIES

It’s no secret that billions of private equity dollars are currently stockpiled waiting for an opportunity in energy. Strategic investors are focused on streamlining businesses, selling off non-core assets, and looking for mergers that allow synergies in management.

Despite the obvious interest, several deals fell through during the year, with appetite and oil price not necessarily translating into completed transactions.

While interest may be significant, buyers are cautious since many got caught up in the price collapse and banks are still reluctant to provide the necessary finance. Everyone seems to be circling, waiting for the best time to make their move.

Upstream

At the start of the downturn in autumn 2014, private equity sponsors were primed to acquire massively discounted assets in the energy space. Distressed companies were the first to be hit, but they were obviously keen to avoid selling off assets at the bottom of the cycle.

The bid-ask spread was just too wide so many opted to kick the can down the road. If firms had sold their assets at this time, lenders would have only been able to recover a nominal amount of what they were owed. It is understandable that they were prepared to wait it out until prices increased.

In response to the downturn, companies are examining their processes more carefully than ever before and operating costs have dropped significantly. Unsurprisingly, when oil was selling for USD 100 per barrel, people were more relaxed about paying higher prices; but as prices plummeted, everyone has become increasingly aware of the bottom line.

Companies are shying away from non-core, high risk/high reward business and focusing on their key, profit making assets. Through this streamlined approach, operators have become better at what they do, as well as more risk averse, and this mind-set will have a lasting impact going forward.

When the oil price jumped up from around USD 30 per barrel to between USD 40-50 earlier this year, many thought that the market had hit rock bottom. It was hoped that this would trigger some improved offers to get deals off the ground, but that hasn’t happened – yet.

Downstream

Downstream companies - refiners and petrochemical companies - generally benefit from a falling oil price. The cost of their crude oil and derivative feedstocks falls faster than the retail price of their products, creating a higher “crack spread” or profit per barrel. With this particular drop, the situation has been further enhanced by the low price of natural gas used to fire the refineries, meaning refiners benefited from a drop in operational costs as well.

“In short, the energy industry has a good news story to tell. It is a story of progress and opportunity for billions of people living around the world. It is a story of entrepreneurship and innovation leading to economic transformation. And it is a story that provides reasons for optimism that we are building an even brighter and cleaner future.”

- Rex Tillerson, Chairman and Chief Executive Officer, Exxon Mobil
Downstream companies have therefore enjoyed much improved financial results, in the short-term. While refiners may do well for the first year or so after a price drop, this improvement is unlikely to last. Eventually competition for market share will prevail, retail prices will fall and margins come under pressure.

As evidence of the expected market share pressure, the Chinese have upped their production and consequently production in the US has slowed down. We expect this will take its toll on margins in the year ahead.

Over the last five years there has been a general trend for the supermajors to divest their downstream operations. While downstream is generally considered the steadier part of the business, it is less attention grabbing and shareholders questioned why such a significant amount of management time was being spent on this area.

As a consequence, mid-sized companies started buying up standalone refineries: PBF bought assets from Exxon and Valero; Marathon from BP and Valero bought from Chevron. Will lower than expected revenues prompt an increase in M&A activity?

Up to this point it has been fashionable to concentrate on core assets and sell off reliable downstream assets. However with the oil price, Chinese weak demand, Brexit and the changing US political climate, companies may need to buy back downstream assets to protect against volatility – everything comes down to share price.

M&A considerations
Running large energy companies involves huge fixed costs and is an immense regulatory burden – the industry is high profile so firms need exemplary health and safety (H&S) records. A disaster would not only hit a company’s own assets, but also those of untold others and regulators are mindful of this.

Energy companies therefore need well developed H&S departments to cope with the frequent changes in government legislation. If a group of mid-sized companies merged, these health and safety costs would not need to be replicated and could be handled by one central team. Environmental legislation will likely continue to tighten and energy companies are under constant pressure to comply with whatever the next requirement is. This burden could help encourage future M&A discussions.

Even in a low pricing environment, there is also an issue with environmental liability. When energy companies sell assets, they want to pass over environmental liability to the purchaser but this can often become a contentious issue that stalls potential M&As.

When companies merge in any sphere, cultures can really differ. In a cutting edge industry like energy, the standards of the supermajors can be really valuable to mid-sized companies – if they buy an asset, they also gain a wealth of experience and shared learning from that company.

Equally mergers handled badly, where parts of the business remain isolated, pose significant dangers. Effectively there can be massive disparities between how a company is run depending on location, rendering any overarching H&S mechanism useless.

Nicholas Little (Aon London), William Lynch (Aon London) & Matthew Wiener (Aon Houston)

Oil Industry 2015

OPEC account deficit: (first since 1998)
USD 99.6BN

US production increase: 8.3%

Global year-on-year demand growth: 1.7%

Source: OPEC

"Unsurprisingly, when oil was selling for USD 100 per barrel, people were more relaxed about paying higher prices; but as prices plummeted, everyone has become increasingly aware of the bottom line"
What is keeping you awake at night?
It doesn’t necessarily keep me awake at night but the main thing I am concerned about is the safety of our workforce. We want to ensure that they operate in a safe work environment every day, where employees and contractors all feel valued and go home safely. While we make every effort to protect ourselves financially with a strong bottom line in order to be prepared to take advantage of those key opportunities. Running safely and reliably allows us to be ready.

What do you wish insurers understood better about your business?
I do think insurers understand a great deal about our business and we put a lot of effort into educating underwriters about who we are and what we are about. That said, I would hope for them to consider other qualities that help set some companies apart from others. Ours is not a complicated business model, but we approach things differently.

We focus on our strengths and not always on what will get the greatest return. We also have a long-term strategy of continually reinvesting in our employees and facilities. This approach has resulted in efficient and profitable operations supported by a strong and dedicated team.

Knowing what you know now, what advice would you have given yourself two years ago (prior to the precipitous drop in oil price)?
The last few years haven’t been bad for us as we are not dependent on feedstock prices like some upstream companies. Looking at the struggles of other companies at this difficult time, it shows that the model for running a business has to be stressed to be able to cope. You have to be prepared for the worst even when things are good and this means keeping a strong balance sheet, not leveraging too much debt, or gambling on exploratory projects. We stay true to our successful business model and maintain discipline even when things are going extremely well. You need to keep focused on the long-term perspective in the good times and the bad.

What do you see as the key challenges facing the energy sector in the coming decade?
Firstly we are going to see a lot more environmental regulation; this will continue to drive up costs and we need to remain cognisant of that. These regulations will become increasingly stringent and we need to factor that into the cost of doing business and try to be ahead of the curve.

Secondly there is an aging workforce. This is not altogether bad as this provides the industry with a wealth of knowledge.

Lastly, we must try to continue to maintain the trust of the global society by upholding an excellent safety record and continuing to operate as a good neighbour. We enjoy sharing our success in order to enhance the quality of life in communities where Valero has major operations.

However, at the same time, we are not attracting young people into the workforce. Refining and the energy industry in general is not seen as particularly glamorous and it is not endearing to the younger generations - big oil companies are always painted as ‘the bad guys’. So we will need to work out how to make the industry more attractive going forward to ensure we attract that vital talent.

Thirdly, in a decade’s time, alternative sources of transport like electric cars may well have become more prevalent. We would obviously want to take advantage of any new opportunities that arise to provide resource in these areas, but they will almost certainly provide challenges as well.
The best Aon team
- Solid experience
- Deep and stable bench
- Global experts and reach
- Breadth of capabilities

Service at the heart of relationship

Understanding your individual risk
- Benchmarking risks against peers
- Loss and actuarial analysis of portfolio
- Risk retention analysis
- Technical and optimal design of our insurance programme
- Mutually agreed objectives and strategies

Understanding your individual risk

Delivering outstanding results
- Unwavering delivery of results
- Develop and deliver dedicated solutions
- Integrated retail and wholesale broking teams
- Market-leading position
- Aon Client Promise
- Aon Client Treaty

Our commitment to you
AON SOLUTIONS

Risk engineering
Using GPS and internet-based reporting tools we work with clients to consider the ‘what if’s’ of their global operations, benchmarking their risk profile against peers, while enabling insurers to partner in continuous risk optimisation.

Catastrophe modelling
Aon has comprehensive in-house and third party modelling capabilities that are invaluable in informing your risk management and insurance placement decisions in the face of global catastrophe risks.

Asset valuation
Aon works with energy clients to understand the individual replacement costs of infrastructure, providing protection against average claims. Ranging from a simple appraisal to a detailed survey, valuations help to create certainty in the event of a loss.

Global Upstream Facultative Facility
This dedicated Aon solution delivers competitive rates, superior security and reduced administrative burden, all backed by the expertise of recognised leaders in upstream energy risk.

Revenue and business interruption modelling
Aon works with clients to understand and quantify the impact that losses will have on revenue and operations, developing business interruption loss scenarios to limit the financial impact should the worst occur.

Estimated maximum loss analysis
EML analysis helps clients to identify and quantify risks, evaluate the quality of their risk mitigation and provides invaluable insights for insurers that help to unlock competitive coverage from the market.

Risk management outsourcing
In the face of tough market conditions, many firms are turning to Aon to take on their internal risk management function, drawing on the expertise of our specialty team to support company-wide enterprise risk management and broader risk transfer.

Risk engineering
Catastrophe modelling
Asset valuation
Global Upstream Facultative Facility
Revenue and business interruption modelling
Estimated maximum loss analysis
Risk management outsourcing
This compelling solution provides 20% automatic pre-secured co-insurance capacity on any order placed in the London market through Aon’s Global Broking Centre, with coverage available for virtually every business class and geography.

Aon Client Treaty

Aon works with energy firms in their retirement plan management, helping them to develop and maintain market-leading investment programmes, reduce plan costs and maximise participant outcomes.

Retirement

Energy companies working in politically volatile parts of the world can benefit from in-depth consultancy and an ability to secure coverage for threat, property damage, business interruption, cyber and loss of attraction linked to terrorism.

Terrorism

Energy clients are improving their cash flow positions through surety facilities that cover contract performance, advance payment and retention; while bonds are providing guarantees for long-term decommissioning exposures.

Surety

With market-leading capabilities, Aon works with energy companies to help them understand and mitigate the threat posed by cyber attacks to data, systems and physical assets.

Cyber

Aon works with energy clients to identify corporate and personal exposures to liability, creating programmes that incorporate risk mitigation recommendations as well as the broadest D&O insurance coverage available.

D&O

From talent evaluation and leadership assessment, to performance and compensation management and workforce planning, Aon plays an invaluable role in supporting the HR strategy of firms right across the energy sector.

Talent Management

Coverage insulates clients against issues associated with warranty breaches, adverse tax consequences and contingent liability claims when entering into M&A deals, either as a buyer or seller.

Transactional Liability
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