

Industry Analysis

Oil and Natural Gas Exploration

Q2 2014

Industry Overview

For years, oil and natural gas companies have been compounded with environment and health issues, particularly in relation to their exploration processes. At the center of these controversies is hydraulic fracturing, more popularly known as fracking, which involves pumping millions of gallons of water, sand and chemicals deep underground to fracture shale rock and release oil and gas. While fracking has unlocked huge amounts of oil and gas in the U.S., the chemicals used and the dangers in this process have instigated national debate and protests.

In September 2013, the Pennsylvania attorney general charged XTO Energy Inc., a subsidiary of oil and gas giant Exxon Mobil Corp., for spilling more than 50,000 gallons of chemical-laced wastewater from a storage tank into a local waterway in 2010. State environmental inspectors discovered pollutants from the chemically treated water, including chlorides, barium, strontium and total dissolved solids. As a result, XTO was charged with five counts of unlawful conduct under the Clean Streams Law and three counts of unlawful conduct under the Solid Waste Management Act. Two months earlier, in July, the Environmental Protection Agency and the Justice Department already fined XTO \$100,000 for the fracking spill.

In another case, Chevron faced complaints from protesters in Pungesti, Romania in October 2013 after the company announced its plans to drill the area for shale gas. According to the protesters, they fear the environmental and health impact of fracking, which environmentalists said may cause water contamination and even small earthquakes. Chevron had to suspend its drilling activity, despite having permits to explore for shale gas in three villages in northeastern Romania as well as on Romania's Black Sea coast.

The oil and gas industry comprises two parts: “upstream”—the exploration and production segment of the industry; and “downstream”—the segment that deals with refining and processing of crude oil and gas products, as well as their distribution and marketing. Companies operating in the industry may be regarded as fully integrated, or those that have both upstream and downstream interests, or may concentrate on a particular segment, such as exploration and production, commonly known as an E&P company, or just on refining and marketing. Many large companies operate globally and are described as multi-nationals, while other smaller companies concentrate on specific areas of the world and are often referred to as independents. Frequently, a specific country has vested its interests in oil and gas in a national company, with its name often reflecting its national parent.

The oil and natural gas exploration industry consists of companies that extract and produce crude petroleum and natural gas. The industry also consists of the recovery of petroleum gases (LPG) recovered from oil and gas fields. This industry is based on oil-related services. Companies in this industry range from independent contractors who provide specialist technical services to the industry, such as drilling, cementing, to catering and hotel services in support of operations. This industry has fostered a close partnership, and increasingly, a contract culture of their clients.

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