

Markets in Focus

Q1 2025

ENERGY

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& Market Update



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INTRODUCTION

The U.S. energy industry, spanning both traditional and renewable sources, has undergone significant transformation over the past decade. Key factors driving these changes include evolving environmental mandates, international conflicts disrupting supply chains, rising concerns about cybersecurity, and the growing adoption of AI technologies. Additionally, the industry is grappling with a tight labor market, increasingly complex regulatory landscapes, and economic pressures from high interest rates and inflation, which have tightened access to capital.

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Energy companies are increasingly prioritizing decarbonization in response to mounting regulatory pressures. According to BloombergNEF, global investment in the low-carbon energy transition reached \$1.8 trillion in 2023, marking a 17% increase from the previous year.¹ Global energy transition investment figures encompass several sectors central to the transition, including renewable energy, energy storage, nuclear, hydrogen, carbon capture, electrified transport and buildings, clean industry, clean shipping, and power grids.²

However, global energy transition investment would need to average \$4.8 trillion per year from 2024 to 2030 to reach a net-zero scenario by 2050, which is nearly three times the total investment observed in 2023.³

This transition will encompass the undertaking of a significant amount of capital projects in the

coming years. Renewable energy infrastructure, transmission, distribution, and storage will need to be developed, involving millions of workers to replace equipment and establish mines and supply chains for necessary resources. However, economic challenges and shortages of equipment, materials, and skilled labor pose roadblocks to the completion of these projects. According to an analysis by Bain & Company, approximately \$1.5 billion in capital will be at risk annually for the average power, oil and gas, or mining company through 2030.⁴

Despite the shifting energy landscape and the United Nations' goals to reduce global carbon emissions by 45% by 2030 and achieve net-zero by 2050, oil and gas are expected to remain in strong demand for decades.⁵ The International Energy Agency (IEA) projects global oil demand to rise by 3.2 million barrels per day by 2030 compared to 2023, barring stricter policy interventions or significant behavioral changes. This growth is primarily driven by emerging economies in Asia, with India seeing increased oil use for transportation and China experiencing heightened demand for jet fuel and petrochemical feedstocks.⁶

The U.S. continues to lead the globe in crude oil and natural gas production. To meet increasing power demand, natural gas will play a significant role as a lower-carbon alternative to coal and other petroleum products.⁷

The long-term transition trend from oil and gas to renewables will inextricably continue. Policy initiatives, such as the 2022 Inflation Reduction Act and the 2021 Infrastructure Investment and Jobs Act, will incrementally improve the economics and reduce the cost of investments in renewables projects. At the same time, renewables mandates and greenhouse gas emission limits will drive demand for alternative energy and its production.

UPSTREAM

The U.S. Energy Information Administration (EIA) reports that U.S. crude oil production reached a record 13.2 million barrels per day (b/d) in 2024. Production is expected to grow to 13.5 million b/d in 2025 (up 3%) and 13.6 million b/d in 2026 (up 1%), with growth slowing notably in 2026.⁸

The Permian region is projected to drive U.S. production growth in 2025 and 2026, fueled by improved well productivity and expanded pipeline capacity. Output is expected to increase by nearly 300,000 b/d annually, reaching 6.6 million b/d in 2025 and 6.9 million b/d in 2026. Advances in technology and enhanced drilling practices will further boost efficiency in the region.⁹

On the other hand, regions outside the Permian are experiencing slower production growth. Output in the lower 48 states is expected to remain flat in 2025 and decline by about 4% in 2026, driven by reduced drilling and completion

activity, partly due to lower crude oil prices. Additionally, these regions face greater limitations in well productivity, pipeline capacity, and access to international markets compared to the Permian.¹⁰

Global oil production capacity, led by the United States, is projected to reach nearly 114 million b/d by 2030—about 8 million b/d higher than expected demand. According to the IEA, global oil demand growth will continue to decelerate and is anticipated to peak by 2030.¹¹

Natural gas supply growth is primarily fueled by increased production in the Permian and Haynesville regions. Dry natural gas production is expected to rise by 1% in 2025 and nearly 3% in 2026. The Permian region's increased crude oil production will drive growth in 2025, as most natural gas production in this region is associated gas production.

WHAT THIS MEANS FOR YOU

- + Capacity constraints in the upstream market persist, particularly for traditional sources like coal and gas.¹²
- + Property market conditions have stabilized. After years of hard property conditions, there is a shift in appetite that is favorable for clients in pricing and terms.
- + Continued increases in U.S. production combined with social inflation and nuclear claim verdicts have all contributed to heightened underwriting scrutiny for the sector. Insureds are facing intense underwriting scrutiny, leading to longer quote turnaround times and increased requests for information, site visits, and valuations.¹²
- + However, there is still capacity available in the upstream market, with some profitable carriers seeking to expand their business.¹³
- + The losses of 2023, being Pemex (platform fire), Turkey Oil (offshore pipeline CAR loss), Highlander (control of well event), Baltic Connector (subsea pipeline incident) and Pinon Midstream (gas plant fire), were not significant enough to be market-changing events on their own or when aggregated and few markets wrote more than two of these losses.
- + Upstream casualty conditions remain challenging. Underwriters remain focused on auto liability exposures due to social inflation and nuclear verdicts. Clients must have critical auto controls in place such as GPS tracking and management, front and/or rear-facing cameras, constant MVR monitoring, and vehicle use policies to be considered an acceptable risk (especially if they have large fleet exposure).

MIDSTREAM

Midstream infrastructure was heavily utilized in 2024 as oil and gas production reached record highs. As oil and gas production in North America is expected to increase modestly in 2025, overall midstream infrastructure utilization is expected to remain strong.¹⁴ Pipeline capacity could become a challenging bottleneck in the oil and gas industry if production continues to trend up, even modestly, as is expected.

The focus on building out midstream infrastructure to meet demand growth in natural gas is expected to continue in 2025. Natural gas demand growth is driven by LNG exports and power demand growth fueled by artificial intelligence (AI) applications and the related need for data centers. According to the Oil and Gas Journal, AI-fueled data centers is expected to add an additional 3-5 billion cubic feet per day (bcfd) of demand (an incremental 3-4% of total demand) in North America over the next few years.¹⁴

Additionally, the EIA estimates that about 20 bcfd of pipeline capacity is under construction in the U.S. to serve LNG export plants.¹⁴ New midstream infrastructure, such as the 2.5 Bcfd Matterhorn

Express Pipeline, is expected to alleviate some bottlenecks. Three new Permian Basin pipeline projects with a combined capacity of 7.3 Bcfd are also in development and are expected to be completed between 2026 and 2028.¹⁵

However, a shale production growth slowdown over the next six to 18 months, especially if large shale operators reduce their drilling and completion activity due to weak prices, could lead midstream companies to shift their focus toward optimizing existing pipelines, rather than constructing new ones. Some major midstream companies have already highlighted this cautious investment approach for the Permian Basin.¹⁶

According to a report by Morningstar featured in the Oil and Gas journal, "the [energy] sector will continue to invest in maintaining and optimizing existing crude oil pipelines; however, major investments in developing new crude oil pipelines are not anticipated. There is expectation the sector will continue to invest in developing NGL infrastructure in North America, including NGL pipelines and fractionation facilities."¹⁴





WHAT THIS MEANS FOR YOU

- + The midstream sector faces growing competition from new facilities and increased M&A activity.¹²
- + Midstream rates should remain stable with downward pressure from increased underwriting competition and market capacity creating a soft market cycle.
- + The excess energy market continues to harden, with rates reaching 10% to 15%.¹²
- + Midstream property accounts with insurable values under \$100M are seeing more stable capacity compared to recent years.¹³
- + Proactive risk management/engineering will secure better policy terms.
- + Major pipeline projects in regulatory-heavy regions (California, Northeast) may face underwriting challenges.
- + Inflation is still a concern, but its impact has slightly diminished.¹³
- + Coastal wind deductibles typically range from 2%–5%, but some carriers are increasing them to 10% to balance pricing.¹³
- + Non-coastal risks are seeing higher wind/hail deductibles, with 1%–2% becoming standard due to frequent and severe convective storm losses.¹³
- + Parametric insurance solutions for extreme weather-related midstream losses will expand.
- + Creativity is important and repositioning/ reframing coverage or exposure can generate better outcomes for clients and therefore greater savings/improvements.
- + Business interruption coverage heavy accounts will still face scrutiny, requiring more substantial risk mitigation efforts.
- + The midstream sector is still facing its challenges following further loss activity in 2023, most notably Pinon Midstream's gas plant fire and the resultant contingent business Interruption loss to Ameredev II, keeping the spotlight on portfolio performance.



DOWNSTREAM

By the end of 2024, global refinery runs increased by 930 kb/d year-over-year, driven by gains in the U.S., the Middle East, and Africa. Runs are projected to grow by an additional 660 kb/d in 2025.¹⁷

The U.S. EIA estimates U.S. refinery capacity will reach 17.9 million barrels per day by the end of 2025, a 3% decline compared to early 2024. After years of decline, refinery margins are expected to stabilize in 2025.¹⁸

LyondellBasell Industries plans to close its Houston refinery in Q1 2025, reducing U.S. refining capacity by nearly 264,000 barrels per day. Phillips 66 also announced it would shut down its Los Angeles refinery in Q4 2025, further cutting capacity by 138,700 barrels per day.¹⁹

These closures are expected to slightly increase gasoline prices in 2025 due to reduced refinery output, although lower crude oil prices may offset this impact.²⁰

U.S. gasoline prices are projected to drop by over 10 cents per gallon in 2025, a 3% decline compared to 2024. In 2026, prices are expected to fall further by nearly 20 cents per gallon, or an additional 6%.²⁰ Retail gasoline prices are expected to decline across most U.S. regions in 2025, except the Rocky Mountains. In 2026, prices are forecast to increase on the West Coast due to reduced regional gasoline production following the closure of Phillips 66's Los Angeles refinery. Meanwhile, prices are anticipated to decrease in the East Coast, Gulf Coast, Midwest, and Rocky Mountain regions.²⁰



WHAT THIS MEANS FOR YOU

- + Downstream energy property premiums have stabilized after reaching record highs in 2023 due to fewer significant losses, fewer natural disasters, and ample supply.¹²
- + It is becoming more common for insurers to explore deploying larger share sizes, often considering maximizing their available capacity on any one risk.
- + The downstream energy property market is softening, with projected rate reductions of 2.5% to 7.5%, a relief from last year's rate hikes of up to 30% for insureds with large losses. However, due to many claims and constrained market capacity the downstream casualty market continues to face pricing increases.¹²
- + Casualty rates are expected to continue to increase through 2025.¹²
- + While underwriters continue to demand high-quality risk engineering reports, exposure assessments, and valuations, the focus has shifted toward quality over quantity in risk evaluation.
- + Insurers are closely monitoring potential exposure to per- and polyfluoroalkyl substances (PFAS), as regulatory and litigation risks continue to escalate.
- + Due to the hazardous nature of refining and petrochemical processing, there is an ongoing emphasis on process safety management, fire prevention measures, and loss control engineering to mitigate catastrophic risks.
- + The Texas Supreme Court ruled that excess insurance coverage is determined by the policy's own terms rather than underlying policies. Specifically, in *Ohio Casualty v. Patterson*, the court held that "loss" in the excess policy does not include legal defense expenses, resulting in a ruling favoring the insurer. This decision may influence future excess coverage disputes.

- + As cyber threats to operational technology increase, risk managers leverage data analytics to refine cyber insurance strategies and optimize risk transfer mechanisms.
- + Companies are increasingly exploring parametric insurance (trigger-based coverage) and captive insurance structures as alternative solutions to mitigate volatility in traditional markets. In parallel, the market for parametric solutions is growing with new carriers, gas, and overall capacity entering the market.
- + Due to heightened supply chain vulnerabilities and increased access to operational data, business interruption risk remains complex for underwriters. The gap between BI and property damage rates has widened significantly.
- + Organizations creatively deploy self-insured retention strategies to optimize risk financing and reduce reliance on the commercial insurance market.
- + While reported property values have stabilized, underwriters are now closely assessing whether deductible structures are appropriately scaled to match risk profiles.
- + Two large refining losses occurred in January. The total estimated loss to the commercial insurance market is circa \$1 billion, the majority of which is business interruption.



RENEWABLES

Electricity consumption is expected to continue growing in 2025 and 2026 due to growing power demand in the commercial and industrial sectors.²¹

Solar power will account for the majority of the growth in U.S. electricity generation in 2025 and 2026. The EIA projects 26 GW of new solar capacity to be added in 2025 and 22 GW in 2026. These capacity additions are expected to boost U.S. solar generation by 34% in 2025 and 17% in 2026.²¹

Renewable energy growth is projected to reduce natural gas generation by 3% in 2025 and an additional 1% in 2026.²¹

Advances in cleantech manufacturing, AI, and carbon technologies are enabling renewable energy companies to address key constraints. According to a report by Deloitte, "...reshored cleantech plants are reshaping solar panel and battery storage supply chains. AI is increasingly being leveraged to optimize these supply

chains, and accelerate operational efficiencies and technological innovation in renewables. Meanwhile, the sale of attributes in carbon markets may provide an additional value stream for emerging renewable technology projects."²²

Deloitte also reports that funding from the \$8.3 billion Empowering Rural America program and \$4.3 billion Climate Pollution Reduction Grants may be the impetus for the deployment of more than 36 GW of renewables and storage by 2030 across all 50 states.²²

For the biofuels industry, RIN and LCFS market prices have dropped substantially since 2022 impacting margins on many businesses in the space.

There has been some uncertainty around the Inflation Reduction Act and how new policies will impact funding. Based on initial clarifications, there has been no intention of eliminating any funds under this program.

WHAT THIS MEANS FOR YOU

- + Premiums for solar and wind farms have increased due to an increase in claims from natural catastrophes.¹³
- + Reduced capacity in the marketplace has led to tighter underwriting guidelines.¹³
- + Engaging carrier's engineers early and often in the renewal cycle has led to better underwriting results.
- + Showcasing effective risk management and loss mitigation is crucial for securing favorable terms and pricing for renewable energy projects.¹³
- + In the biofuels space, the marketplace has leveled out. Many carriers domestically and in London have ESG initiatives which has led to stabilization in the marketplace over the last six months.

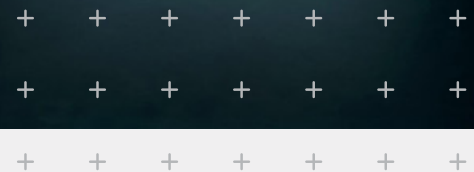
IN SUMMARY

The energy industry has had more than its share of upheaval in the last half-decade with the pandemic, an economic downturn, emerging energy mix mandates, and geopolitical conflicts involving countries in producing regions. The new U.S. presidential administration could certainly catalyze changes in all market sectors of the energy industry.

U.S. producers have performed remarkably well, reacting flexibly by incorporating new technologies and techniques to produce efficiently despite price unpredictability. They also have shifted resources toward alternative energy sources to meet the growing demand for sustainable energy options.

Still, each sector within the energy industry has unique areas of potential and challenges. The same applies to purveyors in each energy source – oil, gas, and various renewables. The upstream energy insurance market is showing positive signs, with capacity still available and some carriers seeking to expand business. Fires and explosions continue to be the most significant exposures and can result in 9 figure losses. The primary coverage triggered in the energy industry is business income/loss of income coverage.

At the time of this report, the energy industry is at the tail end of a challenging period. But economies are recovering. Interest rates will decline. Geopolitical conflicts are bound to run their course. Energy demand is returning to previous levels, and while the energy mix might change, the industry is agile enough to deliver each profitably.



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