Hurricanes Harvey, Irma and Maria may be over, but the journey to recovery has just begun.

The strongest hurricane to hit the United States since 2004, Hurricane Harvey left behind a trail of debris as it swept through the Houston area in late August and early September, causing major flooding that left thousands of commercial buildings, homes, cars and equipment in ruins. Hurricanes Irma and Maria rapidly followed, bringing destruction to Florida, Puerto Rico and the Caribbean islands.

While estimates of the total cost of destruction vary among analysts, nearly all agree that Harvey may be one of the costliest hurricanes in U.S. history—with total rebuilding costs possibly edging toward $180 billion, according to Texas Governor Greg Abbott (for comparison, the recovery cost associated with Hurricane Katrina amounted to slightly more than $120 billion). The price tags associated with Irma and Maria are yet to be seen.
Among the industries hit hardest by Harvey is Texas’ refining industry, which processes about a third of America’s oil. On August 29, a few days after Harvey made landfall, S&P Global Platts estimated that roughly between 2.33 million barrels/day (b/d) to 3.36 million b/d (18 percent of the U.S. total) of Texas’ refining capacity remained down due to refinery shutdowns. While some Gulf Coast oil refineries did manage to reopen relatively quickly after the storm, more than a dozen continue to struggle to resume operations, which ultimately affected gas prices at the pump.

As government programs and private insurers begin dealing with the widespread devastation, organizations must be prepared to take stock of all their losses and submit their insurance claims as soon as possible.

RESPONDING TO CRISIS: INSURANCE GUIDANCE FOR BUSINESSES

As was the case with Harvey, Irma and Maria, natural disasters often strike quickly and unexpectedly, giving organizations little notice or time to prepare. Thus, it is important that businesses become familiar with their insurance policies long before a disaster occurs. However, once a disaster does strike, entities looking to recover quickly should thoroughly assess all their potential losses and the coverage options available to them.

Below are three steps organizations can take immediately following a natural disaster to ensure they are on the road to recovery as soon as possible.

1. **Identify all possible disaster-related losses.**

   Before filing a claim, companies should conduct a comprehensive assessment of all their assets to determine all the losses they may have incurred due to the natural disaster—taking care to include both physical and non-physical losses. The latter is especially critical, since non-physical losses, including those related to business interruption, are not as obvious and often overlooked.

   Business interruption losses can include damages to critical links in a company’s supply chain (either upstream or downstream, in the case of an oil and gas company) that can ultimately disrupt its supply of raw materials and/or manufacturing processes. Significant damage to the property of customers and suppliers, as well as to the general infrastructure of the area, could increase the price of raw materials for companies far outside the storm’s direct path. It could also include disruptions to a company’s labor force, as displaced employees are unable to get to work. Hurricane Katrina, for example, saw a mass exodus of the population from New Orleans, many of whom never returned. While this may not be the case with Harvey, businesses should expect that some employees may be displaced from their homes for potentially several months, which can hinder recovery plans.

   Due to the complex considerations involved, loss assessment is not always a straightforward process, and it is recommended that companies at this stage consult or bring in a third-party assessor who can help them take an overall inventory of their damages. Even those that **did** have sufficient time to prepare for an expected natural disaster often find it difficult to predict the whole scope of its impact.

2. **Determine which types of insurance coverage apply.**

   While every company’s insurance policy differs, and much is subject to the determination of brokers and claim adjusters, it is important that organizations identify all the coverage(s) they have that might apply—preferably, again, with the help of an expert. This often includes property insurance coverage for physical damages to facilities or equipment, as well as contingent business interruption (CBI) and service interruption coverage.

   CBI insurance provides lost profits coverage for damage to the property of others that results in lost profits to the Insured. The qualification in CBI is that the damage to the property of others must be to the property that would have been covered under the Insured’s own property. For example, if a chemical manufacturer had drilling rigs in the gulf as primary customers but had an offshore property exclusion, it’s possible that damage to those rigs resulting in lost profits may not be covered.

   Another type of coverage that might apply is service interruption coverage, which includes the loss of power or utilities, the inability to return to the property safely, and civil authority coverage. The latter covers lost income when access to the Insured’s property is prevented, hindered or impaired by an order or action of a civil authority due to a loss event. So, for example, if a major road to a refinery was blocked by the city government due to storm damage—thereby preventing refinery workers from accessing the refinery and commencing operations—the loss of profit incurred by the refinery due to this disruption could qualify for a claim.

   Finally, companies should also consider their eligibility for federal aid. While FEMA does not offer grant assistance to businesses, those affected can apply for U.S. Small Business Association (SBA) disaster loans, which can be used to repair or replace real estate, machinery and equipment, and inventory and business assets damaged or destroyed in a declared disaster. Each company should work closely with their insurance broker and adjuster following a catastrophic loss event to determine how their policies apply to the facts and circumstances of their losses.

3. **File the appropriate claims as soon as possible.**

   Time is of the essence when it comes to filing insurance claims, and entities should strive to file a claim as soon after a disaster as possible. While the primary reason to do this is obvious—most policies will require that a claim be filed within a certain amount...
of time—organizations that wait too long to submit a claim may find it difficult to prove that the disaster indeed caused the loss. This is especially true for non-physical losses that may be harder to quantify or explicitly prove.

PREPARING FOR THE FUTURE
The short- and long-term losses resulting from a natural disaster are always devastating, regardless of whether the disaster was predicted or unexpected. However, organizations can mitigate their financial risks by ensuring they are sufficiently covered for both physical and non-physical losses before a disaster strikes and then taking smart, decisive actions if it does. By working with industry experts to conduct a comprehensive assessment of their losses, determining what type of insurance coverage they qualify for and then submitting the relevant claims as soon as possible, businesses can ensure they are doing all they can to facilitate a speedy and effective recovery.

DID YOU KNOW...

- The U.S. Energy Information Administration (EIA) projects that renewables will provide the largest share (34 percent) of electricity generation across the globe in 2040—a significant departure from 2015 when coal accounted for 40 percent.
- The U.S. oil & gas rig count increased 412 from last year to 936 in early October, according to Baker Hughes.
- According to BDO’s 2017 Oil & Gas RiskFactor Report, all of the 100 largest publicly traded U.S. oil & gas companies cite natural disasters as a risk to their business.
- The EIA forecasts total U.S. crude oil production will break a record in 2018, reaching an average 9.8 million barrels per day.
- Haynes and Boone’s bankruptcy tracker recorded 144 oilfield services (OFS) filings and 128 Exploration & Production (E&P) filings since the start of 2015 through mid-September.
With Canada ranked as the fifth-largest producer of natural gas and the sixth-largest producer of crude oil in the world, we spoke with Bryndon Kydd, the national leader of BDO Canada’s Natural Resources practice and Assurance & Accounting service line leader for the Greater Vancouver Area, to get his insights on the biggest trends sweeping the country’s energy sector today. Read his full Q&A below.

**What first sparked your interest in the natural resources industry, and how did you come to join BDO?**

Vancouver is a big mining town—as is Western Canada in general—so you hear a lot about the industry growing up. My grandfather worked in mining, so I grew up hearing many of his stories about camp life and the sector.

I joined BDO immediately upon graduating on the advice of an instructor who had previously worked in BDO’s valuations group. He described BDO as a highly innovative and entrepreneurial firm—two attributes I strongly value. I’ve found BDO to encompass these qualities and more, as I’ve witnessed the tremendous growth the firm has experienced over the past 17 years.

My interest in mining grew significantly throughout my years at BDO. When I first started working, I found the mining practice fascinating due to the complex and challenging nature of the accounting and auditing work. Over time, I developed a significant appreciation for the geological aspects of mining. One of my favourite professional experiences was spending half a day with a geologist at one of our clients’ mines in Western Australia, discussing geology and kicking over rocks together.

**What are some of the biggest mining and energy trends you are seeing in Canada today?**

Over the past 18-24 months, we’ve seen a growing trend of well-financed mining groups acquiring or investing significant capital in quality mineral projects that were previously starved for cash. This increase in capital flow has been very positive for the mining sector overall. It has helped projects gain access to management teams with the resources they need to move forward and has provided work to individuals who have long struggled to find employment. While many mining companies still strive to get adequate financing today, the situation has certainly improved from a couple years ago.

In addition, we are also seeing a much greater focus on alternative energy today than a decade ago. This is due to several factors and developments: Ontario, for example, had banned coal a couple of years back. Meanwhile, the global downturn in oil
prices has significantly impacted the profitability of oil as a commodity and has led many oil & gas companies to reconsider their investment in the Canadian oil sands. These factors, as well as others, have resulted in more Canadian energy companies investing in and developing renewable energy sources. This effort is well supported by the government’s Scientific Research and Experimental Development tax incentive program, designed to encourage Canadian businesses to conduct research and development in Canada.

How has your practice helped a mining or energy client in the past?

BDO Canada has 225 people servicing the C-suite of mining clients in a variety of areas nationwide. One of the fastest growing areas is IT services, with an emphasis on digital transformation solutions. The increase in demand for our digitalization services over the past year is not only a great testament to how quickly digital innovation is sweeping the mining industry, but also to how many companies are realizing they must modernize their operational systems to stay competitive.

One client we worked closely with this year is Barrick Gold Corporation; our work involves helping them adopt digital strategies—such as leveraging the Internet of Things (IoT) platforms—to drive down costs. To do this, we delivered a consolidated data platform that enables other digital solutions to function. We also assisted in their adoption of Microsoft technologies that could enhance their operational visibility and increase collaborative processes. By moving their workstreams to cloud platforms like Microsoft Azure, we helped them enhance their digital work environment tools—allowing their mechanics, for example, to use tablets to monitor selected job orders. Furthermore, we introduced processing automation, which helped Barrick improve its carbon management through both enhanced operations and analytics, preventing ounce loss and leading to automated carbon and reagent control in heap leaching—consequently reducing downtime and reagent costs.

We continue to work closely with Barrick Gold’s Investment Analysis team at their Toronto head office to consolidate investment analysis information aimed at helping management gain a holistic view of large capital expenditures that impact the company’s life-of-mine costs. By using digitally enabled platforms (versus Excel sheets or potentially out-of-date PDF documents), management can make more informed decisions about potential merger and acquisition targets by converging multiple internal and external data sources to enhance team dialogue in real-time. Our work with Barrick Gold is one example of how we help many of our mining clients modernize and digitize their systems.

As 2017 draws to a close, what do energy companies see as their biggest risks in the year ahead?

A major risk affecting the natural resources industry, as well as many others, is the U.S. political environment, which is currently highly unpredictable. While the new administration’s view toward the mining and oil & gas sectors have been very friendly thus far, it’s anyone’s guess what long-term strategies may or may not support the sector. In addition, we can expect that the ongoing North America Free Trade Agreement (NAFTA) renegotiations between the U.S., Mexico and Canada will play a significant role in shaping the future of the energy sectors in all three countries.

In the Province of British Columbia (BC), the recent election of a party that has historically been critical of both the liquefied natural gas (LNG) industry in BC, as well as Site C—a multibillion-dollar hydroelectric project currently under construction—will have a significant impact on the industries involved. Since the May 9 election, one of the major energy companies working on establishing a multibillion-dollar LNG plant plant on the BC coast has terminated its project, and there are further indications that Site C may be put on hold for re-evaluation as well. This news is troubling for the LNG sector and all those who rely on the projects for their livelihood in Western Canada.

Where are you looking to expand and grow your practice next year?

We have deep bench strength in IT and management consulting in the mining sector and are looking work with more energy companies domestically and internationally. There are many positive indicators that the mining sector is moving in a promising direction, and we’re looking forward to helping companies rise up and recover from the long downturn.

Our goal for the oil & gas sector is to help companies find new and innovative ways to thrive—despite the current volatile pricing environment—by making smart capital decisions, developing new innovations and investing in the right business opportunities at the right time.

Bryndon Kydd is the national leader of BDO Canada’s Natural Resources practice, the Assurance & Accounting service line leader for the Greater Vancouver Area and BDO Canada’s representative on CPA Canada’s Mining Industry Task Force on the International Financial Reporting Standards (IFRS). He can be reached at bkydd@bdo.ca.
New U.S. Administration Introduces Regulatory Uncertainty

Nearly 9 in 10 oil & gas companies cite changes to federal tax policy as a risk, up from 70% last year.

Let's Get Digital: Emerging Tech Disrupts Operations and Workforce

69% point to technological advances as a risk, up from 60% in 2016.

70% cite a shortage of skilled labor as a concern, up from 65% in 2016.

75% worry about the ability to attract and retain key personnel, up from 65% in 2016.

Reality Check: Despite intensifying cyberattacks, oil & gas companies still underestimate cybersecurity risks.

The Future is Looking Greener

Obama-era clean energy initiatives leave a legacy cited by more than 1/3 of oil & gas companies.

69% in 2011.

91% in 2017.

99% worry about environmental regulations.

Climate change regulatory concerns heat up.

The highest in the study’s history.

Political Instability Abroad Threatens International Interests

About 2/3 cite competition from foreign energy sources.

85% cite interruptions to production due to terrorist activities or political instability.

45% cite risks to their global operations.

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WAS THE RUSH ON OILFIELD SERVICE
IPOS JUST A SPRING FLING?

By Brad Ross

A flood of oilfield services companies (OFS) were poised to enter the IPO market this year, ending a dry spell that had persisted for much of the recent past. Early estimates of the year’s total OFS offerings were bullish, with investment banks predicting as many as 15 companies prepared to file.

What sparked the IPO rush? Oil prices were rebounding from a ten-year low in early 2016—and investors were eager to capitalize on the industry’s turnaround. With a limited pool of public OFS companies, many private OFS companies saw a window of opportunity to enter the public market.

As U.S. oil producers raced to increase output and capitalize on stabilizing oil prices, demand for equipment to support the production boom skyrocketed. Surging demand for service providers fueled competition, allowing some players to increase rates more than 60 percent from the year prior, according to Bloomberg. The revenue boost and expectation of sustained increased activity came as extremely welcome news for OFS companies and their private equity owners.

Since the onset of the fourth quarter, there have been a total of six completed OFS IPOs, all backed by private equity funds, several of which were focused around pre- and post- hydraulic fracturing water management services. The quantity of OFS public offerings has fallen short of the industry’s expectations, but 2017 is still on track to be a strong year for the OFS sector. With a half-dozen newly minted public companies, OFS listings are dominating energy IPOs and have outnumbered the exploration & production (E&P) sector for the first time in more than a decade.

At the midpoint of 2017, Bloomberg reported that OFS offerings—by Keane Group, ProPetro Holding Corp, Select Energy Services, NCS Multistage Holdings and Solaris Oilfield Infrastructure—raised a combined $1.35 billion. This accounts for a slice of 46 total private equity exits in the first half of the year, which netted a combined value of $15.2 billion (this figure includes the higher E&P company valuations), according to PitchBook. The newest entrant to the public market, Ranger Energy Services, raised an additional $85 million in August.

WHAT’S DAMPENING THE RESURGENCE OF THE OILFIELD SERVICES SECTOR?

Oil prices are hovering stubbornly around a $45 to $50 per barrel price. Unfortunately, the $50+ per barrel price trend in December, January and February proved to be a short run-up, as opposed to a longer-term norm. The result: Even the hot Permian basin rig count has stalled since June, greatly impacting forecast 2017 operating results, on which many IPO valuations were based.

Energy service providers were among the hardest hit during the downturn. Haynes and Boone recorded 144 OFS bankruptcies since the start of 2015, surpassing the total 128 Chapter 11 filings of their E&P counterparts. Forced to implement layoffs and make cuts during the downturn, companies could find themselves without the personnel and resources to keep pace with the increased demand. A byproduct of this strain, the quantity of drilled but uncompleted wells (DUCs) has increased by more than 22 percent from last year, for a total of 7,048 at the end of August, according to the U.S. Energy Information Administration (EIA).

The consequences of downsizing likely don’t come as a surprise. More than 8 in 10 of the 100 largest publicly traded U.S. oil & gas companies (83 percent) worry about a shortage in rigs, equipment and personnel, according to the 2017 BDO Oil & Gas RiskFactor Report.

Brad Ross is a Transaction Advisory Services managing director in BDO’s Houston office. He can be reached at bross@bdo.com.
MARK YOUR CALENDARS

The following is a list of upcoming conferences and seminars of interest for natural resources executives:

**OCTOBER 2017**

Oct. 23-24  
**S&P Global 10th Annual Appalachian Oil & Gas Conference**  
DoubleTree by Hilton Hotel & Suites Pittsburgh Downtown  
Pittsburgh

**DECEMBER 2017**

Dec. 4-5  
**ICEEOR 2017: 19th International Conference on Energy Engineering and Oil Reserves**  
Crowne Plaza Hong Kong  
Hong Kong

Dec. 4-8  
**2017 American Exploration & Mining Association Annual Meeting**  
Nugget Casino Resort  
Sparks/Reno, Nev.

Dec. 5  
**PennWell Offshore Leadership Forum**  
Norris Conference Centers  
Houston

**NOVEMBER 2017**

Nov. 6-7  
**Hart Energy Executive Oil Conference: The Permian Punches Back**  
Midland County Horseshoe Arena & Pavilion  
Midland, Texas

Nov. 6-8  
**AICPA Oil & Gas Conference**  
Marriott City Center  
Denver

Nov. 12-14  
**S&P Global Platts Mexican Energy Conference**  
Hilton Mexico City Reforma  
Mexico City

For more information on BDO USA’s service offerings to this industry, please contact one of the following regional practice leaders:

**CONTACT:**

CHARLES DEWHURST, Houston  
713-548-0855 / cdewhurst@bdo.com

TOM ELDER, Houston  
713-407-3959 / telder@bdo.com

RICHARD BOGATTO, Houston  
713-407-3723 / rbogatto@bdo.com

VICKY GREGORCYK, Houston  
713-407-3955 / vgregorcyk@bdo.com

ROCKY HORVATH, Houston  
713-986-3150 / rhorvath@bdo.com

RAFAEL ORTIZ, San Antonio  
832-545-9679 / rortiz@bdo.com

CLARK SACKSCHEWSKY, Houston  
713-986-3101 / csackschewsky@bdo.com

ALAN STEVENS, Dallas  
214-665-0786 / astevens@bdo.com

BDO’S NATURAL RESOURCES INDUSTRY PRACTICE

BDO’s Natural Resources industry practice provides assurance, tax and advisory services to emerging and established businesses in the United States and all over the world who are involved in both the traditional and alternative energy industries. Our clients often operate across borders either raising capital or making acquisitions abroad. Our extensive industry knowledge is supported by our international network of more than 1,400 offices in 158 countries, allowing us to provide a consistently high level of service wherever our clients do business.

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