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## Chubb Announces New Underwriting Standards for Oil and Gas Extraction

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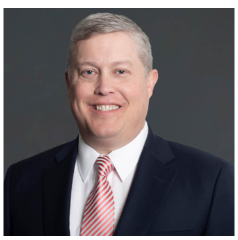

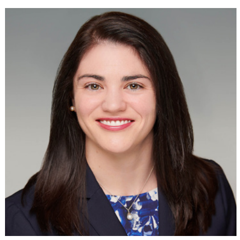

On March 22, 2023, Chubb, one of the world's largest insurance companies, introduced new climate-focused underwriting standards intended to induce reductions of methane emissions from the oil and gas production sector.

Under the new standards, Chubb will continue to offer coverage only to clients that implement evidence-based plans to manage methane emissions including, at a minimum, a leak detection and repair (LDAR) program, elimination of non-emergency venting, and measures to reduce emissions from flaring. These criteria commence immediately, but customers will have time to develop an action plan based on their individual risk characteristics. Chubb has also committed to creating a customer resource center to support oil and gas insureds implementing these requirements.

Chubb also announced that it will immediately cease offering coverage for oil and gas projects in government-protected conservation areas designated by state, provincial or national governments. This will include conservation areas covered by International Union for the Conservation of Nature (IUCN) management categories I-V in the World Database on Protected Areas, which includes nature reserves, wilderness areas, national parks and monuments, habitat or species management areas, and protected landscapes and seascapes. A sixth IUCN category applies to protected areas that allow sustainable use, and Chubb plans to develop standards for projects in category VI areas and for oil and gas extraction projects in certain key zones not currently listed in the World Database on Protected Areas by the end of 2023.

It is unclear how Chubb's new underwriting criteria will compare with existing and proposed federal and state rules like NSPS Part 60, Subparts OOOO and OOOOa, the proposed NSPS Part 60, Subparts OOOOb and OOOOc, and Pennsylvania's 2022 Control of VOC Emissions from Unconventional and Conventional Oil and Natural Gas Sources Rules. Compliance with these state and federal standards may satisfy insurers like Chubb, but that is not certainly the case. For example, Chubb has announced that it will require, at minimum, a LDAR program, but it is unclear what the required monitoring frequency will be. Wells with emissions below certain thresholds not currently subject to frequent monitoring under federal or state rules may need additional monitoring to remain insured under Chubb's criteria.  It is also possible that other insurance companies will follow Chubb's lead in the coming months. Producers should remain alert to notices from their insurance companies to ensure that facilities meet the requirements to remained insured.

This new underwriting policy is an extension of Chubb's recent efforts to focus more on climate-related activities.  The company has already limited coal-related underwriting and investment.  Chubb has also launched a new climate business unit, Chubb Climate+, which will offer insurance products and related services to companies developing new technologies that support progress towards a low-carbon economy.

Chubb's new standards exemplify the expanding and influential impact of Environmental, Social, and Governance (ESG) principles on companies operating in the energy sector.  ESG generally refers to a set of factors used to measure the non-financial practices in areas such as sustainability, climate, and resource conservation, and non-environmental areas such as diversity, equity, and inclusion. Consumers, insurers, lenders and investors are placing an increased emphasis on ESG considerations when making business decisions, and regulatory agencies are beginning to take actions aimed at increasing the transparency of regulated companies' ESG efforts through required disclosures.

For example, a number of proposed federal agency rules over the past year could make ESG reporting mandatory, including the Securities and Exchange Commission's proposed Enhancement and Standardization of Climate-Related Disclosures for Investors, which could become the first mandatory ESG reporting requirement for publicly traded U.S. companies.  In addition, the Department of Defense, General Services Administration, and National Aeronautics and Space Administration have proposed a rule that would require certain federal suppliers to annually disclose their greenhouse gas (GHG) emissions and climate-related financial risks, as well as set GHG emissions reduction targets, on an annual basis. Whether through exposure to consumer, insurer, lender or investor initiatives, or to new ESG reporting requirements imposed by regulatory agencies, companies operating in the energy sector are likely to face increased scrutiny over ESG-related practices that may, as in the case of the new Chubb standards, require costly operational changes.

Babst Calland's energy and environmental attorneys continue to track ESG related issues affecting the energy industry.  For more information, please contact Ben Clapp at (202) 853-3488 or bclapp@babstcalland.com or Gina Buchman at (202) 853-3483 or gbuchman@babstcalland.com.