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Houston, TX

1:00–1:50 p.m.

DESIGNING THE CONTROL OF WELL COMPONENT OF AN ENERGY PROGRAM

Presented by

Pascal Ray
Senior Vice President, Marine and Energy Practice Leader
USI Insurance Services

Control of well (COW) insurance is among the most important policies covering risks arising in the oil patch. There are many nuances and variations in this coverage. This session will dig into the basics of COW coverage, as well as the coverage options currently available in the insurance marketplace. Strategies, tips, and tools on how to best build a customized insurance program to meet a client’s specific needs will be provided.
Pascal Ray
Senior Vice President, Marine and Energy Practice Leader
USI Insurance Services

Mr. Ray joined USI Insurance Services as Marine and Energy Practice leader in March 2015. Prior to joining USI, he was the Upstream Energy Practice leader for AmWINS Group, Inc., and a national resource in those areas. His experience includes developing and managing energy and marine underwriting programs. He has created, developed, and managed energy and marine binding authorities on behalf of the US domestic, London, and Bermudian insurance markets for the past 25 years.

Mr. Ray is an instructor for energy and marine insurance continuing education courses in his community and has written and participated in articles involving energy and marine industry insurance issues. Current topics of issue include hydraulic fracturing in the oil and gas industry and the changing legal environment and risk for the maritime industry.
Designing the Control of Well Component of an Energy Program

Presented by:
Pascal Ray
Marine & Energy Programs Practice Leader
USI Insurance Solutions

Control of Well Risk Architecture
Building the Control of well Component of an Energy Program
Risk Transfer through Insurance

Avoid
- Eliminate causes of well control risk.

Mitigate
- Reduce probability or impact of well control risks.

Accept
- Contingency plans for well control risks.

Transfer
Have third party take on financial responsibility for well control risks through Insurance or Contractually.
Evolution of Control of Well Insurance
A unique insurance coverage with a long Lloyds history of solving significant risk issues for Oil & Gas Companies

40’s – 50’s
First Well Control policy from Lloyds of London
- Only covered Well Control Costs

70’s
- London OEE form had very broad definition of “Well Out of Control,” caused significant losses for Underwriters they had not intended to cover.

2000 to present
- EED 86 form continues to be the basis of virtually all onshore and offshore Control of Well Policies.
- Evolving to meet the risks of unconventional Oil & Gas

Conventional Oil & Gas
- Coverage evolved to include:
  - Restoration & Redrill
  - Care, Custody & Control
  - Pollution

60’s

80’s – 90’s
- The EED 86 Lloyds Control of Well wording created by the Lloyds Joint Rig Committee to solve the issues of the OEE form.

The EED 8/86 Control of Well form was developed by the Lloyds Joint Rig Committee in 1986 and continues to be the basis of coverage for most onshore and offshore drilling activity worldwide.

There are many nuances and variations in the standard EED 86 wording that vary from insurer to insurer.

Control of Well coverage should be negotiated to fit each client’s specific needs.
Control of Well insurance: What does it do?

Control of Well Insurance provides specialized coverage for Well Control Events for Oil & Gas Wells and for many other types of Wells.
Control of Well coverage can apply to all types of Wells, not just Oil & Gas

- Drilling - Exploratory/Wildcat Wells
- Drilling – Developmental Wells
- Workover Wells
- Producing Wells
- Plug & Abandoned Wells
- SAGD Wells
- Salt Water Disposal Wells
- Salt Cavern Storage Wells
- Gas Injection Wells
- Geothermal Wells
- Uranium Wells
- Commercial Water Wells
- Scientific & Research Wells

What is a Control of Well Event?

An unintended, uncontrollable flow of drilling fluid, oil, gas, or water, above the surface of the ground, or waterbottom in case of a well located in water, which cannot be controlled by the blowout preventers.
An Unintended, Uncontrollable Flow of Drilling Fluid.. 

The well unloads fluid/mud in the initial phase of a blowout  
• There Is No Specific Time Element In The Definition Of Blowout.  
• Blowouts can last for days or take years to bring under control. 

...Oil... 

• Burns with heavy, black smoke  
• Pollution covered for Surface Blowouts
...Gas...

• Natural Gas can be regarded as Air Pollution as it can contain significant pollution elements. Significant claims are possible.

...Or Water, Above The Surface Of The Ground...

• No Risk Of Fire

• May Involve Extensive Pollution Remediation For Land Operations
Which Cannot Be Controlled By The Blowout Preventers

- Well Control Events Are Not Necessarily Catastrophic Events
- Leaking blowout preventers
- Wellhead leaks
- Corrosion leaks

A “Blowout” is not necessarily a Well Control Event.
A Well Control event is the Control of Well policy Coverage Trigger.

This policy provides no insurance coverage unless there is a Well Control event... Surface Subsea, or Underground blowout.

A “Kick” is not a “Well Out of Control” and damage resulting from a “Kick” is not covered.

**Control of Well insurance Coverage Trigger**

- Damages resulting from a “Kick”.
- Sub-surface Pollution.
- Fines, Penalties, and Punitive Damages.
- Breach of Policy conditions such as not using a BOP, Due Diligence, or Fraud.
- Wells in the process of being drilled, completed, or other well related operations prior to coverage unless agreed in advance by underwriters.
- Cyber
- Terrorism
- War Risks

**Control of Well**

*Key Exclusions*

*Exclusions vary from product to product*
Control of Well Insurance can cover the entire life cycle of the well

Well Control Events can occur at any time, at any phase, and at any depth during the life of the well.

Control of Well
Specialized Property and Casualty Insurance Coverage

Liabilities
- Seepage and Pollution
- Clean Up & Containment
- Defense Costs (Pollution)
- Care, Custody, & Control
- Evacuation Costs

Property
- Well Control Costs
- Re-Drilling Costs
- Voluntary Clean up and Containment Expenses
- 1st party Seepage and Pollution Expenses
- Removal of Wreck
Control of Well Coverage Sections

Control of Well

Policy Coverage

...to reimburse the Assured for actual costs and/or expenses incurred by the Assured in regaining or attempting to regain control of any well insured hereunder which get out of control...
Control of Well
Recoverable Costs

Costs of Experts
• Firefighters
• Consultants
• Mud Engineers

Goods and Services
• Drilling rig
• Drilling mud
• Chemicals and additives
• Transportation costs

Relief Well
• Mobilization of rig
• Drilling costs

Restoration and Redrill
Policy Coverage

...to reimburse the Assured for actual costs and/or expenses reasonably incurred to restore or redrill a well insured hereunder, or any part thereof, which has been lost or otherwise damaged as a result of an occurrence...
Restoration and Redrill

**Recoverable Costs**

**Rig Dayrate**
- The cost of the rig until the well is restored to the original depth and condition

**Redrill From Surface**
- If the entire well is lost

**Sidetrack Drilling**
- If only a portion of the well is lost

**Recompletion**
- Only to the extent as existed prior to the incident

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Seepage And Pollution,

**Recoverable Costs**

**Pollution Response**
- Initial containment

**Pollution Clean-Up**
- Clean-up and disposal of oil or contaminants

**Mitigation Costs**
- Costs incurred to lessen the amount of damage
  - Protecting Sensitive Environmental Areas and Beaches

**Litigation Costs And Defense Costs**
Care, Custody, and Control, recoverable costs

The Replacement Cost Of Leased Or Rented Equipment For Which The Assured Is Liable By Contract

• Third-party Owned In-Hole Equipment
  - Rented downhole tools such as Measure-While-Drilling
• Third-party Owned Surface Equipment

Key Causes of Blowouts

• Human Error
• Equipment Failures
• Shallow Gas
• Cement/Casing Failure
• Formation Kicks
• Loss of Circulation
• Inability to control pressure
• Various Downhole scenarios
Sometimes insurance coverage is a matter of opinion...

Prime Lawsuit
Control of Well Insurance
Key program architecture considerations:

- Policies vary in coverage
- Rating
- Combined Single Limit
- Care, Custody & Control Sub-Limit
- Scaling Interests
- Setting Limits: Limits need to be evaluated carefully for each client.

**Very Important:** When designing a Control of Well insurance program

Scaling Interests Govern

The limits shown on the policy **MAY NOT** be the limits you actually have.

The Limits, Deductibles, and Premium scale to the Insurable Interest of the Assured. The limits on the COW policy are typically only shown for **100%** interest.
Control of Well Coverage
Custom Programs, Tailoring Coverage

In today's low cost competitive environment some operators are choosing to self insure all or some of their Control of Well Risks.

Common with this is only covering Drilling Wells and self insuring the Producing and Plugged & Abandoned Wells.

The most expensive Onshore Blowout in US history was a producing well.

COW Coverage Chart
Fictitious Example for Review Only

Combined Single Limit
Any One Occurrence

$50 MM
$25 MM
$10 MM
$5 MM
$1 MM

Section 1
COW – Coverage A
Well Control
Drilling Wells

Section 1
COW – Coverage B
Producing and Plugged and Abandoned Wells

Section 1
COW – Coverage C
Redrill & Restoration

Section 1
COW – Coverage D
Pollution

CCC

100K Deductible
100K Deductible

Retention/ Deductible

#IRMI2018
Dallas/Fort Worth Airport Property
Barnett Shale Play

- 53 pads on 18,076 acres
- 30 square miles
- Almost complete coverage
- Patchwork, mostly ideal units
Lateral Erosion of Limits

Blowout Risk Extremes

- How much can a blowout cost?
- How long can a blowout last?
- How many wells can be involved?
- What about Evacuation expenses?
DUC’s

Drilled but Uncompleted Wells

Control of Well coverage for well completions for wells already drilled but waiting completion.

A current issue.

Asset Integrity
Largest preventable risk in the Oil & Gas industry
Upstream Energy Infrastructure

UPSTREAM ENERGY INFRASTRUCTURE
KEY FACTS

Oldest Oil well: 157 years old
Oldest continuously producing well in the US: 155 years old
Approximate number of wells drilled in the last 150 years: Several Million

Spotlight on Well Integrity

- Millions of existing wells in U.S. drilled in the USA since the 1800’s.
- Some wells are now over 150 years old.
- A well can blowout in any phase of its life even when it is producing, shut-in, or plugged and abandoned and all wells should be insured regardless of the phase they are in.
- Making sure all wells are covered, even plugged & abandoned wells, is money well spent.
Designing the Control of Well Component of an Energy Program

• Questions?
Notes

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