

MARSH JLT SPECIALTY

GLOBAL ENERGY AND MARINE PRACTICES

# Challenges in Decommissioning for Operators



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*Many oil and gas production facilities from the last 50 years are reaching the end of their operating life. The industry has embraced new technologies to extract hydrocarbons with increasing efficiency to extend production, yet it remains the case that in the forthcoming decade there will be a steep increase in the number of offshore platforms requiring decommissioning.*

*The industry now faces the fresh challenge of how to decommission these older-generation assets in a responsible and economic manner. Having come off the historically low oil price and with shifting geopolitical landscapes, upstream oil and gas companies are now able to take advantage of favourable prices to initiate this work. Both owners and contractors are sizing up projects.*

# What are the Risks?

As assets move through their life cycle their risk profile changes materially, and this creates challenges for risk managers.

During normal operations the prompt repair and reinstatement of property is paramount. As assets transition into late life, these initial concerns around property reinstatement begin to fade, and in their place liabilities become increasingly important. Particular focus is paid to liability for future funding of the decommissioning project, and both evidencing responsibility for these costs and managing their volatility. As the final decommissioning project is set up, the contractual allocation of liabilities between parties during plugging and abandoning of wells and the later dismantling of equipment requires careful oversight.

## Key considerations



**Late Life Incident/Loss  
Inflates Removal Cost**



**Onshore Pollution  
(Dismantling)**



**Well Pollution (P&A)**



**Bodily Injury**



**Damage to Existing  
Property**



**Impairment of Scrap Value**



**Dropped Objects**



**Ongoing Liability Subsequent  
to Decommissioning**



**Marine Exposure**

# Solutions Throughout the Decommissioning

## The challenges:



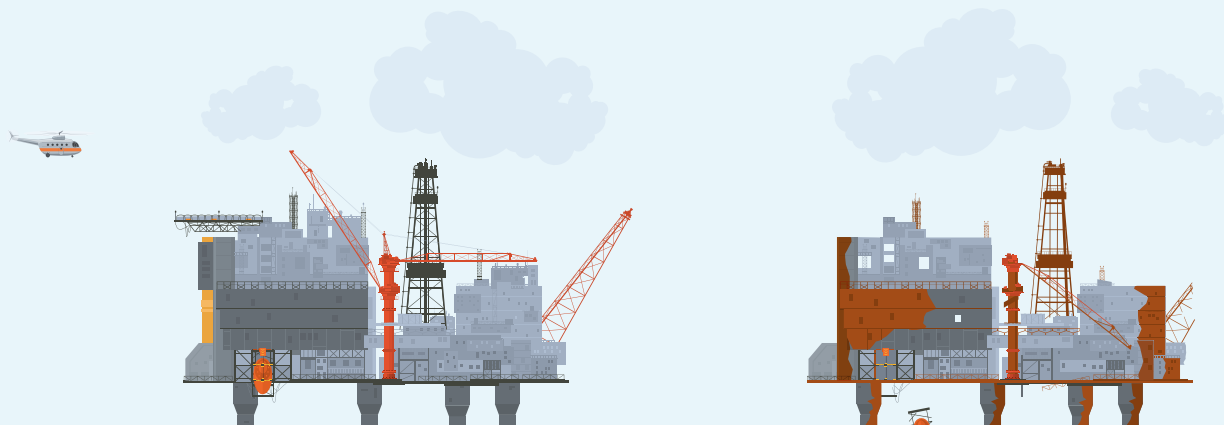
Efficient funding of future decommissioning liabilities.



Allocation of liabilities during M&A transactions.



Insurance valuations for assets entering late life.



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## OPERATIONAL PHASE

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## LATE LIFE PHASE

### KEY ISSUES

Funding required for known and future liabilities; in some case evidence of financial security is required under Decommissioning Surety Agreements.

Issues around basis of valuation, interdependency and stranded assets.

### SOLUTIONS

- **Traditional:** Parental guarantees, letter of credits, escrow.
- **Alternative:** Decommissioning Surety Bond.
- Manuscripting of operational policy to ensure adequate recovery.
- Setting of appropriate agreed values.

### CONSIDERATIONS

The insurance market can be an alternative provider for evidence of financial responsibility in the form of decommissioning surety bonds. These products offer significant advantages over traditional bank products, and are proving particularly attractive to independents for a number of reasons.

#### Advantages include:

- Typically rated on a par, or cheaper, than equivalent bank provided products and also typically sit unsecured, freeing up bank credit lines for other investment purposes.
- Greater flexibility around fund investment than is available using escrow.
- Ability to reduce balance sheet and income statement volatility.

Basis of recovery must be appropriate. Many policies as standard pay Actual Cash Value 'ACV' in the event of reinstatement, which could be an inadequate scrap value only.

Operational policy should also be prepared for future P&A campaign with pre-agreed rates agreed for the activity negotiated during a competitive renewal process.

# Process



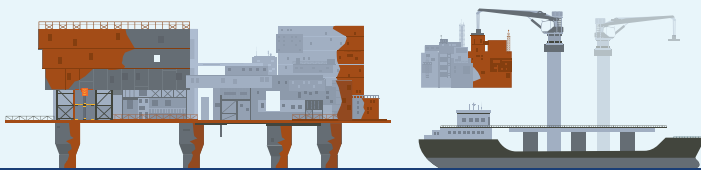
Cover for well plugging and abandonment campaigns.



Allocation of liabilities and insurance during deconstruction phase.



Management of long-term pollution liabilities.



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## ABANDONMENT PHASE

Construction risk alongside “the perils of a marine adventure”.

- Dedicated project Decommissioning policy.
- Marsh JLT Specialty Decommissioning Endorsement applied to existing operating package.
- Reliance on operational cover/OIL to be carefully weighed.

Specific Decommissioning Liability cover separates decommissioning project risks from the ongoing operational insurances and provides bespoke coverage. It is also possible to seek to include smaller projects under the operational package, and a Marsh JLT Specialty decommissioning endorsement has been developed for this purpose.

Our endorsement plugs existing gaps in coverage under the operating package, however, the market is taking a siloed approach to Property and Liability exposures and take-up by exiting insurers cannot be guaranteed.

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## POST CLOSURE LIABILITIES

P&A wells are frequently covered under Operating Packages, but challenges remain to obtain cover for gradual pollution and resolve tight reporting requirements on pollution from wells that may be insufficiently monitored. The market is currently untested in regards of long term policies for P&A exposures, rather than annual renewal under a package, but coverage is theoretically available.

- Operational coverage.
- Dedicated long-term policy.

- Challenge to obtain coverage for gradual pollution.
- Requires appropriate insurer disclosure (and therefore record keeping).
- Market untested although theoretically available.
- Unlikely to be able to get coverage for gradual pollution.
- Insurer security critical.

# Decommissioning Policy

Marsh JLT Specialty has created a Decommissioning policy that is designed to provide a clear coverage for both operator (principal) and their contractors, operating under largely a “Knock for Knock” contractual basis or on occasion more onerous.

**Each project, and its level of risk, is entirely unique so the Decommissioning policy can include any combination of the following coverages:**

- Bespoke third party liability coverage developed by Marsh JLT Specialty.
- Coverage period for the duration of the offshore works and further for the principal insured.
- Legal liability and liability assumed under contract.
- Clear and specific coverage for bodily injury, property damage (including loss of use), removal of wreck/debris, specialist operations, clean up and defence expenses.

**Additional coverages available:**

- Contractual removal of wreck.
- Charters’ liability.
- Contingent owners’ legal liability.
- Offshore cancellation costs.
- Forwarding charges.
- Increased cost of project completion.
- Stand-by charges.
- Loss minimisation expenses.
- General average and salvage charges.



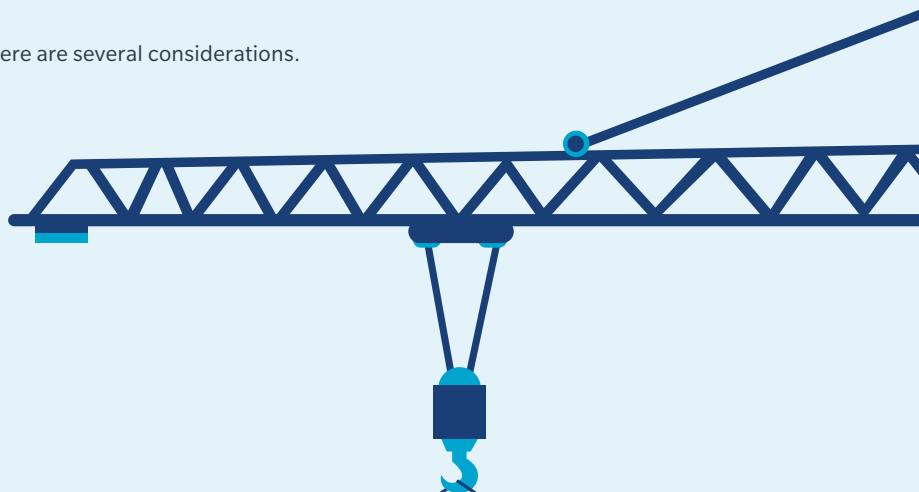
## Insurance Perspective

We offer access to specialty insurers operating in this sector through our own, wholly-owned subsidiary offices and Marine and Energy Specialty teams. With face-to-face broking in all major insurance marketplaces around the world, our teams will gather the capacity required or the maximum available, to create competition amongst insurers in order to obtain optimal pricing and coverage for you.

# Decommissioning Risk under Operator Package

It may be possible to include certain decommissioning exposures under the existing Operating Package, and Marsh JLT Specialty developed a proprietary decommissioning endorsement to include cover under Operating Packages that we place to the extent it will be accepted by package insurers.

However, this is not a straightforward decision and there are several considerations.



## Disadvantages

Relies on existing package insurer appetite, all of whom may not be comfortable to include.

Suited to simpler decommissioning projects with low ECVs.

Decommissioning claims would affect operational loss record and renewals.

Various marine adventure exposures are silent on operational policies and may not be explicit i.e. stand by charges, vessel cancellation costs, forwarding charges, towage risks.

Removal or wreck cover may be more limited than required for decommissioning purposes.

Underwriters unlikely to accept increased costs of project completion following a loss, over and above the normal cost (due to damage to anchoring points, re-design etc).

## Benefits

Utilisation of existing capacity may prove more economic than a stand alone placement.

Can be used to provide basic cover for the main exposures such as dropped objects and pollution.

Simpler administration of decommissioning coverage.







# Our Decommissioning Experience

Marsh JLT Specialty stands at the centre of a global dialogue between energy clients, insurers, service providers, and consultants – bringing risk exposures and capital together. We apply this experience to develop solutions for your business.

We have worked on more than 25 large-scale decommissioning projects all around the world.

- Fixed platforms/pumping platforms/bridges and flare stacks.
- Loading buoys.
- Subsea templates/pipeline end manifolds (PLEMs).
- Structurally compromised offshore platform.
- Floating platform storage and offloading (FPSO) vessel and subsea structures.
- Rig to reef removals.

*Our largest placement in this sector has been USD550 million limit.*

## Our Recent Projects

Location	Period	Duration	Tonnage
Norwegian North Sea	May 2018 to September 2019	17 months	4,750
Southern North Sea	October 2018 to March 2020	18 months	738
Southern North Sea	October 2018 to March 2020	18 months	845
Central North Sea	March 2019 to March 2020	12 months	3,511
Northern North Sea	April 2019 to October 2023	55 months	19,500
Northern North Sea	May 2019 to May 2023	48 months	28,013
North Sea - Dutch sector	August 2018 to February 2019	7 months	852
Northern North Sea	June 2015 to June 2020	60 months	57,239

# Contractual Review

Marsh JLT Specialty can assist with the structuring of liability and insurance clauses in your decommissioning contracts to ensure fair allocation of risk between parties, and ensure insurance arrangements are largely back to back with your obligations while focusing on insurance costs and cover.

We are experienced with the principle contracts used in the industry for decommissioning as issued by Oil and Gas UK (LOGIC) and BIMCO. We have been closely involved on the recent broker consultation for BIMCO Dismantlecon.

## Our contractual review can help you in the following ways:



**Assessment on the allocation of risk to reflect industry standards.**



**Provide equitable allocation for difficult to insure and uninsurable risks.**



**Identify whether your existing policies comply with contractual requirements or need amendment.**



**Advise on appropriate schedule of required insurances.**



**Ensure safeguards such as around the quality of coverage and provision of evidence.**

## Risk Engineering for Decommissioning Projects

Marsh JLT Specialty has assembled an industry leading team of over 40 engineers with global reach based from London, Houston, Singapore and Dubai. Our professionally qualified, industry experienced Chemical and Mechanical engineers have given support to over 400 organisations (owners, operators and contractors) on more than 1,000 downstream and upstream assets.

Our engineering team has experience of producing decommissioning risk assessments, including business interruption analysis to examine your interdependencies and how these change as a result of decommissioning project phases. All of which helps you both manage and present your risk more effectively and to reduce risk transfer costs.







For further information, please contact your local Marsh office or visit our website at [marsh.com](http://marsh.com)

#### Global Marine & Cargo Practice

JOHN BROWN  
+44 (0)20 7357 3325  
[john.x.brown@marsh.com](mailto:john.x.brown@marsh.com)

DAVID VAJNAI  
+44 (0)20 7357 5204  
[david.vajnai@marsh.com](mailto:david.vajnai@marsh.com)

#### Global Energy & Power Practice

MAX OPPENHEIM  
+44 (0)1603 203 618  
[max.oppenheim@marsh.com](mailto:max.oppenheim@marsh.com)

RICHARD LITTLE  
+44 (0)20 7357 2710  
[richard.little@marsh.com](mailto:richard.little@marsh.com)



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