

## Energy insurers heading into deeper waters as oil exploration breaks depth records

**22 April 2010, PRAGUE** – Energy insurers will, over the next 10 years, have to deal with drilling and production platforms in ever deeper waters; more complex subsea infrastructure and the increasing use of electric power – both ‘down hole’ and on the seabed. This was the view of Professor Minoo Patel, Director – BPP Technology Services, in a speech to the AEGIS London Energy Conference in Prague on developments for the next decade.

Professor Patel told his audience that new records would continue to be broken for water depths for drilling and production. While these deep water operations will be expensive, Professor Patel explained that oil production operators were working hard to reduce costs and increase reliability.

Professor Patel said: “Oil and gas field developments are reservoir led: you have to work at the water depths at which you find the oil and gas. The North Sea was relatively shallow but there is an exponential change going on in terms of drilling in deeper and deeper water in the Gulf of Mexico, offshore Brazil and other areas around the world.

“Oil field developments over the last decade have shown that the types of platforms needed to produce from deep water are not converging to a standard type; every development uses a customised platform, different in key respects from its predecessors. This raises very important questions on the balance between an oil field operator’s development risk and the risks taken on by an insurer. All the stakeholders need to have technological insight and agree processes by which risks and business interruptions are minimised.”

In shallower water, Professor Patel explained the current trend was for the greater use of smaller, cheaper unmanned platforms and operators building more infrastructure underwater and on the seabed rather than sitting it on platforms. This was cheaper and more efficient, he argued. Technological advances mean that more unmanned platforms can now be operated remotely from shore. However, Professor Patel pointed out that the array of equipment underwater was extremely complex and required undersea umbilicals, flowlines and power cables making up an interlocking ‘architecture’. This, he said, had the potential for creating new risks for insurers.

Speaking about the environmental dimension, Dr. Simon Johnson, Director – Aon Environmental Services Group, commented on the proliferation of environmental regulation. He said: “There are now 17,000 different environmental regulations worldwide. The chances are energy operators will fall foul of one of those – even by default.”

Dr. Johnson examined the environmental risks around carbon capture and the development of offshore wind farms.

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On carbon capture, he said: "The problem with carbon capture is that the carbon might escape. How are companies going to monitor for such escapes? And how are companies going to pay back the carbon credits they earned from capturing it in the first place? Such escapes, if catastrophic, could result in geo-mechanical failures such as settlement or even reactivation of a fault zone. How would the gradual escape of carbon from a storage project affect biodiversity? We just don't know. Also, there are risks to ground water. The release of carbon into water could create carbonic acid and other contaminants polluting any adjoining aquifer."

Turning to offshore wind turbines, Dr. Johnson said: "The development of wind farms offshore is going to be challenging environmentally. We have to do surveys and these include biodiversity. If the development of wind farms and turbines affect fishing, we're going to have the whole fishing industry making insurance claims."

Peter Gray, a partner with law firm Clyde & Co, explained that banks were beginning to make funds available again to energy projects. He said: "The credit crunch affected the ability of banks to lend. However there are now signs of growing confidence among banks and they are lending to energy projects. Their enthusiasm is directed at lending to the right company and the right project in the right country."

Onshore wind projects and solar projects are currently the banks' most favoured renewable energy investment options, Mr. Gray said, followed by PFI waste-to-energy projects.

The AEGIS London 2010 European Energy Conference took place on 14-15 April at the InterContinental Hotel, Prague, Czech Republic. Attendees included brokers, risk managers and energy industry representatives from across Europe.

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#### **Media enquires**

Adrian Beeby (T) 020 7623 2368  
FWD – PR for AEGIS (E) [adrian.beeby@fwdpr.co.uk](mailto:adrian.beeby@fwdpr.co.uk)

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#### **Notes to Editors**

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