

International **Tug & OSV**

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ITS 2018 Marseille preview

Risks and challenges of emerging decommissioning market

Transforming the environmental impact of the towage industry

DECOMMISSIONING

Risks and challenges of an emerging market

As the decommissioning of offshore oil & gas installations gathers pace, multiple opportunities are opening up for contractors. Sarah Wallace, of the Standard P&I Club, looks at the risks, typical insurance covers and current challenges of insuring decommissioning operations

With the decline of oil & gas reserves in mature regions, and the cost of recovering reserves growing, many offshore facilities have become obsolete and uneconomical to sustain. An increasing need for offshore property to be decommissioned, and field operators' obligations to leave a clear seabed, mean opportunities for contractors appear significant.

The Standard Club has been providing P&I cover to respond to offshore operators' third party liabilities since offshore exploration started in the North Sea in the 1970s. Since then, we have seen our members become increasingly involved in ground-breaking projects. As part of our service to members, the club provides individual contract reviews which highlight how the members' P&I cover responds to liabilities under contract and identify where special terms need to be applied. Over the past year, we have seen a 52 per cent increase in the number of decommissioning contracts reviewed by the club, and it is encouraging to see activity in this area.

One of the main risks associated with a decommissioning project is wreck removal of all or part of the item being decommissioned. Most installations are not designed for removal, they are usually old and in difficult environments, their integrity is often compromised, and documentation is typically limited, so the risk of the item being dropped is higher. This could happen during the removal operations or during the transportation and offloading phase.

Another key risk is damage to existing property at the worksite, which could occur as a result of the work being carried out or in the case of a dropped object. There could be significant claims for repair costs, consequential losses in the event of loss of use and pollution clean-up.

Where the scope of work involves plug and abandonment, there could be a risk of pollution from the well. However, this should be limited as production will have been shut down and residual hydrocarbons and pollutants should have been flushed prior to the work being carried out.

Unlike construction, the value of the asset in a decommissioning context is comparatively low, as it is likely to be scrapped. Loss of, or damage to, the item therefore tends to be less of a concern. However, each project is different, and the risk profile of any operation will always depend on the project, the specific

work to be undertaken and the infrastructure at the worksite.

Typically, the contractor will have hull and machinery insurance to respond to damage to the ship performing the services for the decommissioning project, as well as a P&I entry for that ship. However, depending on the scope of work and contractual terms, the contractor may also need access to a Decommissioning All Risk policy (DAR).

P&I clubs provide mutual indemnity cover to their members for their legal liabilities or those assumed under acceptable contracts arising out of the management and operation of the ship. P&I cover responds to liability for injury/death of crew; pollution from the ship; wreck removal of the ship; damage to cargo, and collision damage.

The International Group of P&I Clubs – made up of 13 clubs – share, or pool, claims among themselves in agreed proportions. An important feature of the mutual system is that no single member unfairly subsidises, or is subsidised by, the other members. Consequently, certain activities, such as decommissioning, have been identified as outside those undertaken by mainstream shipping operators so do not have the benefit of full mutual P&I cover.

Vessels carrying out decommissioning works (for example, removal or plug and abandonment operations), will be protected under the mutual system for claims involving personal injury to the people on board, oil pollution from the ship and legal liability for wreck removal of the ship. However, third party claims resulting from the specialist nature of the operation can only be covered under an extension to P&I cover that is not pooled within the International Group arrangement. Certain clubs therefore provide a separate specialist operations extension to their members, covering third party losses that arise as a result of the specialist nature of their work.

Where the scope of work is 'specialist' in nature, and the contract terms expose the contractor to claims that arise from loss or damage to the item being decommissioned, the contractor will need to have access to DAR cover or an alternative arrangement. A DAR policy will often be purchased by the operator. The policy wordings are typically based on Construction All Risk wordings and follow a similar structure with provision for all contractors and their subcontractors to be named on the policy. This would



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normally respond to loss of residual value of the decommissioned property, pollution from the item and cover additional wreck removal expenses if the property is dropped or otherwise lost during the operations. The DAR policy is usually bespoke and is intended to dovetail with the operator's and contractor's property and liability policies.

Where a tug or OSV is providing transportation services only (for example, towing a barge or carrying the decommissioned items as cargo on the ship) and is not involved in specialist operations, the specialist operations extension would not be required. Provided that the contract for the transportation services is on acceptable terms, mutual P&I cover would be able to respond.

Decommissioning is still in its early stages. Each project has a different scope of work and methodology, so every project and its risks need to be considered on a case-by-case basis. There are also continuing advances in technology and the specialised ships carrying out the works, so flexibility from an insurance perspective is essential.

The current contracting environment is also a challenge. The contractual allocation of liability is key to managing risk and is one of the main considerations when it comes to insuring decommissioning risks. Basic knock-for-knock contracting makes for simple insurance solutions for all parties. However, we have recently seen deviations from the knock-for-knock allocation of liability. This makes it more difficult for contractors when it comes to assessing their insurance needs and deciding what covers and limits to buy.

With different projects, methods of doing the work and contractual allocations of liability, insurance solutions for decommissioning operations need to be considered on an individual basis. The insurance industry therefore needs to remain flexible at this stage.

With the complexity and variety of issues faced, it is important for contractors to consult with their insurance brokers to assist in arranging insurance solutions to suit the works and responsibilities undertaken.