

WELL CONTROL

A Review of Recent Claim Issues

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Outline

- Well Out of Control?
- Well Back Under Control?
- How Many Occurrences?
- Reasonable Expenses
- Betterment

Well Out of Control?

- As defined...
- Direct Evidence
- Indirect Evidence
- Due Diligence / Warranties
- At what level should proof be set?

EED 8/86

For the purposes of this Insurance, a well(s) shall be deemed to be out of control only when there is an unintended flow from the well(s) of drilling fluid, oil, gas or water above the surface of the ground or water bottom,

- (1) which flow cannot promptly be:
 - (a) stopped by use of the equipment on site and/or the blowout preventer, storm chokes or other equipment required by the Due Diligence and Warranties Clauses herein; or*
 - (b) stopped by increasing the weight by volume of drilling fluid or by the use of other conditioning materials in the well(s); or*
 - (c) safely diverted into production;**

or

- (2) which flow is declared to be out of control by the appropriate regulatory authority.*

Nevertheless, and for the purposes of this Insurance, a well shall not be deemed out of control solely because of the existence or occurrence of a flow of oil, gas or water into the well bore which can, within a reasonable period of time, be circulated out or bled off through the surface controls.

EED 8/86

... Section A of this Policy is endorsed to cover reimbursement to the Assured for the actual costs and/or expenses incurred in regaining or attempting to regain control of an unintended subsurface flow of oil, gas, water and/or other fluid from one subsurface zone to another subsurface zone via the bore of a well insured hereunder, which unless controlled prevents continuation of any operations or status set forth in subparagraphs (2) or (3) of this Endorsement..

Direct Evidence

- Surface Flow



Indirect Evidence

(Underground Blowout)

- Noise & temperature log
- Erratic behaviour
- Modeling / Calculations

Level of Proof

- Balance of probability?
- Depends on the Insurer & Assured
- Deductible also a factor, especially for “extended kicks”
- Acceptance of calculations?

Due Diligence / Warranties

It is a condition of this Insurance that the Assured shall exercise due care and diligence in the conduct of all operations covered hereunder, utilising all safety practices and equipment generally considered prudent for such operations, and in the event any hazardous condition develops with respect to any insured well, the Assured shall at their sole expense make all reasonable efforts to prevent the occurrence of a loss insured hereunder.

It is warranted that where the Assured is the operator or joint operator on any insured well being drilled, deepened, serviced, worked over, completed and/or reconditioned, a blowout preventer(s) of standard make will, when in accordance with all regulations, requirements and normal and customary practices in the industry, be set on surface casing or on the wellhead and installed and tested in accordance with usual practice. When the Assured is a non-operator on any insured well, he will endeavour to see that the operator complies with the warranties set out in this Paragraph 15.a.

It is further warranted that the Assured will use every endeavour to ensure that they and/or their contractors comply with all regulations and requirements in respect of fitting storm chokes and other equipment to minimise damage or pollution, and that all equipment (including drilling and/or workover rigs) will be manned by properly certified personnel where required by regulatory authorities.

Well Back Under Control?

- As defined...
- In real life...
- How best to determine this

EED 8/86

A well(s) deemed out of control in accordance with Paragraph 2.a) of this Section A shall, for the purposes of this Insurance, be deemed to be brought under control at the time that:

- (1) the flow giving rise to a claim hereunder stops, is stopped or can be safely stopped; or*
- (2) the drilling, deepening, servicing, working over, completing, reconditioning or other similar operation(s) taking place in the well(s) immediately prior to the occurrence giving rise to a claim hereunder is (are) resumed or can be resumed; or*
- (3) the well(s) is (are) or can be returned to the same producing, shut-in or other similar status that existed immediately prior to the occurrence giving rise to a claim hereunder; or*
- (4) the flow giving rise to a claim hereunder is or can be safely diverted into production;*

whichever shall first occur, unless the well(s) continues at that time to be declared out of control by the appropriate regulatory authority, in which case, for the purposes of this Insurance, the well(s) shall be deemed to be brought under control when such authority ceases to designate the well(s) as being out of control.

In Real Life

- Other problems may arise while attempting to regain control that influence the action plan
- Politics & public interest (Politicians, the regulator, JV partners or environmentalists may be on the Operator's back)
- Assured must be confident the flow has stopped and confident it will not start again

How Best to Determine This?

- Logically, it is when all flow has stopped and it is possible to safely open the BOP stack
- Underground flows more difficult to assess
- This may include some time for formations to depressurise
- And may extend to setting a cement plug

How Many Occurrences?

(Limits, Deductibles & Reinsurance)

- By the words...
- Examples

EED 8/86

The term "Occurrence" shall be defined as one loss, disaster or casualty or series of losses, disasters or casualties arising out of one event.

How Many Occurrences?

- Multiple wells
- Blowout of a redrill
- Multiple flows in same hole section
- Flows in subsequent hole sections

Reasonable Expenses

- EED 8/86 says...
- Evacuation costs
- “Redundant” rig
- Specialist tools onboard
- The next operation
- Fishing costs

EED 8/86

CONTROL

Expenses recoverable hereunder shall include costs of materials and supplies required, the services of individuals or firms specialising in controlling wells, and directional drilling and similar operations necessary to bring the well(s) under control, including costs and expenses incurred at the direction of regulatory authorities to bring the well(s) under control, and other expenses included within Clause 1 of this Section A.

REDRILL

Insurers agree, subject to the Combined Single Limit of Liability, terms, and conditions of this policy, 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 giving rise to a claim which would be recoverable under Section A of this policy if the Assured's Retention applicable to Section A were nil, subject to the following conditions:

Underwriters shall reimburse the Assured only for such costs and expenses as would have been incurred to restore or redrill a well had the most prudent and economical methods been employed.

Reasonable Expenses

- Arguably, evacuation is to protect human life, not to control the well.
- A rig that blew out may play no role in the control operation
- Logging & completion tools may be kept onboard for operational convenience
- The company there to run the casing, log the well, etc. do not assist in regaining control.
- Fishing costs may be in lieu of sidetracking

Betterment

- No explicit comments in generic wording, but an established principle
- Does the Assured have a “better” well?
- What if the Regulator imposes requirements?

Summary

- EED 8/86 still works well
- But there remains a gap on definitions
- Technical interpretation is the key
- Challenge is explaining adjustment principles
- Rules of practice?

Thank-you

