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STUDY TITLE: Diversifying Energy Industry Risk in the GOM

REPORT TITLE: Diversifying Energy Industry Risk in the GOM: Post-2004 Changes in Offshore Oil and Gas Insurance Markets

CONTRACT NUMBER: 1435-01-04-CA-32806-39899 (M08AX12687)

SPONSORING OCS REGION: Gulf of Mexico

APPLICABLE PLANNING AREA: Gulfwide

FISCAL YEARS OF PROJECT FUNDING: 2007, 2008, 2009 & 2010

COMPLETION DATE OF REPORT: November 2011

COSTS: FY 2007: \$57,509 71; FY 2008: \$83,001 56; FY 2009: \$0 00; FY 2010: \$24,790 73 **CUMULATIVE PROJECT COST:** \$165,302 00

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KEY WORDS: Gulf of Mexico; offshore structures; industry risk; E&P operations; insurance; hurricanes; reinsurance; pollution; accidents; outer continental shelf; weather

BACKGROUND: Hurricanes Katrina and Rita inflicted considerable economic damage on the Gulf coast economy. The impacts associated with oil and gas supply interruptions created by the hurricanes went beyond the region's economy by impacting both national and international energy markets. These oil and gas supply interruptions occurred during perhaps one of the most inopportune times in the recent history of energy markets and underscored the need for diversifying energy industry risk in the Gulf of Mexico (GOM).

OBJECTIVES: This project investigates how the energy industry diversifies its risk exposure in general in the GOM, with a particular emphasis on insurance-related issues. Risk mitigation is secured through the use of various strategies, including but not limited to the following: the private insurance market, energy supply portfolio management, alternative resource development, and non-traditional markets such as hedge funds. All strategies, but most notably the private insurance market, have undergone significant changes in recent years.

DESCRIPTION: Hurricanes Ivan, Katrina, Rita, and Ike had significant implications for offshore oil and gas activities in the Gulf of Mexico (GOM). These “Big Four” hurricanes significantly changed the perception of oil and gas industry’s exposure to weather-related risks. This project surveys historic (pre-storm) offshore insurance markets and investigates insurance-related changes occurring after the advent of the Big Four storms. Each major offshore insurance type has been examined including commercial insurance coverage, mutualization coverage, insurance-linked securities, and self-insurance.

SIGNIFICANT CONCLUSIONS: The over-arching conclusion that can be reached from the post-2004 tropical storm season is that offshore insurance markets, while tested considerably, work and adapt to rapidly changing risk exposures in the GOM. Clearly, limits were imposed, premiums increased, and deductibles and other claims restrictions were implemented. These structural and market changes led, however, to the expansion of existing insurance providers, as well as the emergence of new players, all supported by expanded capital resources provided by reinsurance and other insurance-based financial instruments. The result of this experience has been a much tested, but more resilient and robust, offshore insurance market that continues to provide support and capacity for current and projected offshore oil and gas activities.

STUDY RESULTS: The research finds that, while considerable offshore insurance changes have been made, post-storm insurance markets reacted in relatively expected ways by changing total coverage limitations, coverage terms, risk-sharing terms, and premiums. The more significant unexpected change rests with the higher annual informational requirements for insuring offshore assets and the greater degree of asset risk assessment and modeling that is now commonplace in the industry.

STUDY PRODUCTS: Dismukes, D. E. and C. P. Peters 2011 Diversifying energy industry risk in the GOM: Post-2004 changes in offshore oil and gas insurance markets U S Dept of the Interior, Bureau of Ocean Energy Management, Gulf of Mexico OCS Region, New Orleans, LA OCS Study BOEM 2011-054 101 pp