



WELCAR – Buyers’ reactions and affects on the dynamics of contracting

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Contents

- Kristin caveat
- Buyers reaction
- Dynamics of contracting
- Experience
- Developed betterments
- Purchasing philosophy discussion
- WELCAR – areas for improvement

- “NO COMMENT” intended
- Still in cause investigation phase

Kristin Riser Guide Tubes



Buyers Reaction

- Positive
 - A clear desire to develop a working product!
- No historical perspective
- Focus on “today’s” version
 - Took over from an over developed product in an over heated insurance market
 - Created stability
 - Tried and tested
 - 95% understood?
- Rumours of V2?



Dynamics of Contracting

- Accepted and understood
 - Contractor has the whip hand!
- Paid claims have created comfort in the product
- Claims handled below insurance deductible
- A stable wording has assisted the contracting process
- Welding issues
- Defective Part
- “Temporary Works”
- Dumb barges



Experience

- Approx 29 of the past 40 projects since inception December, 2000, were insured under the WELCAR conditions
- 16 incidents
 - 4 of which under negotiation (exc Kristin)
- Ca 11 incidents handled by WELCAR
- Positive experience and fair results



Developed Betterments

- Heavy Lift temporary works
- Offshore Cancellation Costs
- Defective Part Exclusion Buy-Back
 - Buy-back of additional marine costs
- P&I for “dumb barges”



Caveat Emptor vs Dum spiro spero

- In simpler terms; how much do you influence your purchasing philosophy?
- Weaknesses in the insurance procurement process?
 - Where do they lie?
 - Who has control of them?
 - Internal / external to the process?
 - Is any weakness a fault of the wording or as a function of the wording?
 - What can be done about it?

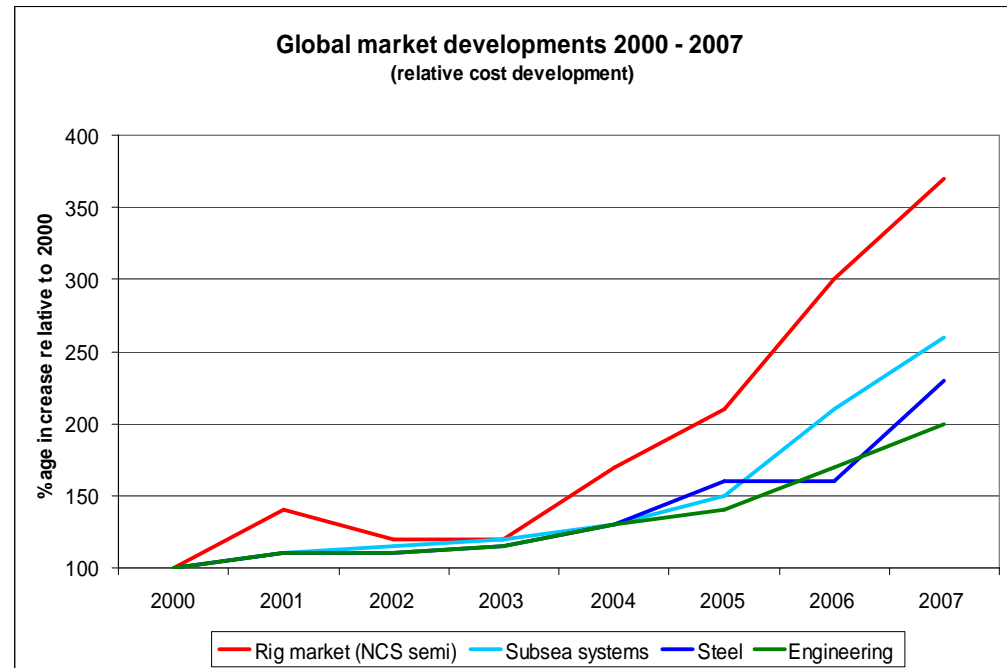
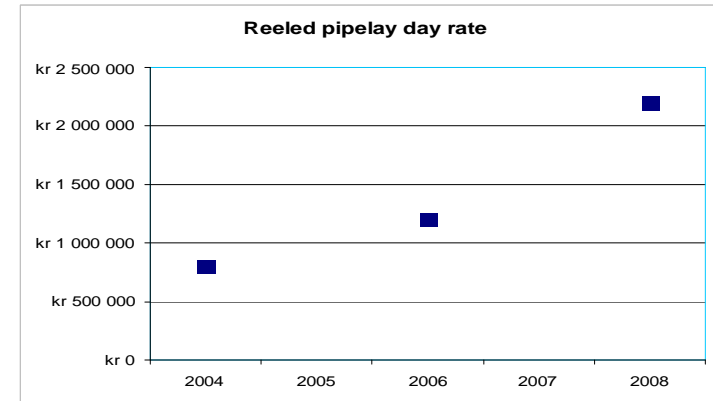
Weaknesses in the insurance procurement process surrounding Schedule B

- Affect of increased costs of technology
 - Technology as Enabler, but it costs



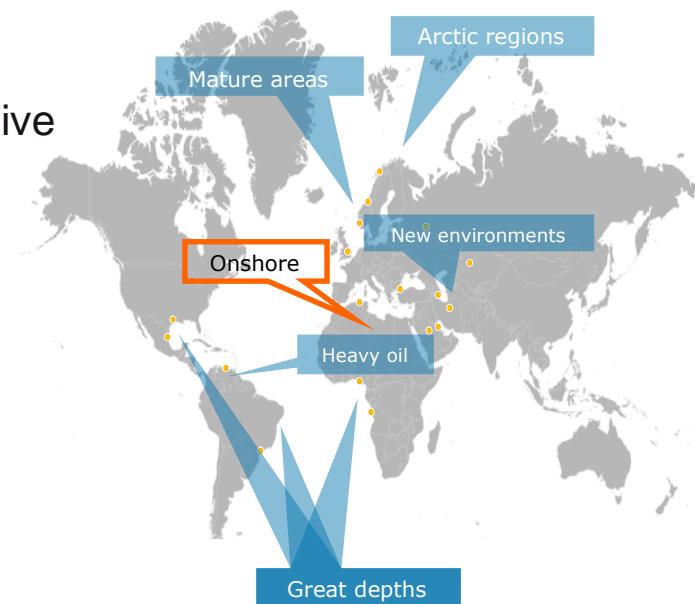
Understanding the affects of Schedule B

- Future repair costs in a rising market
 - Marine spread
 - Technology
- Broker's habit of stripping out parts of the CAPEX
- CAPEX contingency is not the same as insurance contingency
- Consideration should be given to buying increased contingency amounts



Affects of Schedule B and the future

- There is a correlation between oil price and marine costs
 - High oil price makes more difficult reservoirs viable
- Will a stable oil price eliminate marine cost inflation?
- In which direction are the oil company's frontiers going?
A few thoughts:
 - Technology is the key
 - Deeper water will require larger, and more expensive marine vessels
 - Ice regions not yet exploited
- Conclusion – “Caveat emptor” is a better purchasing philosophy than “dum spiro spero”



WELCAR - Areas for improvement

- Defective Part
 - Ambiguity
 - Could cause friction between Company and Contractor
- Welds
 - Not always able to push onto contractors!



Thank You