Gulf deepwater drill risk insurance cost seen rising

Platts Oilgram News
August 24, 2010

Washington—The cost of drilling and operating in the deepwater US Gulf of Mexico will rise considerably as a result of a repricing of drilling risk by insurers and capital providers, and the effects of anticipated regulatory changes, the consulting firm Grant Thornton said in a report released August 23.

Proposals for tighter regulation include greater redundancy in drilling safety requirements, imposing more stringent requirements for receiving deepwater drilling permits and increasing the federal cap on economic liability from an oil spill to $10 billion, the report noted.

Increasing the liability cap would reduce the risk of US taxpayers being liable for the cost of an oil spill, it said. However, the cost of obtaining $10 billion insurance coverage "will be prohibitively expensive, and smaller companies also lack the financial resources and strong balance sheet necessary to selfinsure," the report said.

This would most likely "lead to a great deal of consolidation, as only the largest integrated oil and gas companies would be financially capable of operating in the deepwater Gulf," the report said. The subsequent loss of independent operators "could lower Gulf production by a significant amount, because independents excel at maximizing production of mature and declining fields."—
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