

WINDS OF CHANGE – DIVERSIFIED STAKEHOLDERS IN OFFSHORE WIND CLAIMS

07.03.2018

**Marie Åstebøl Larssen
Harland Evans**

Marsh – Oslo/London

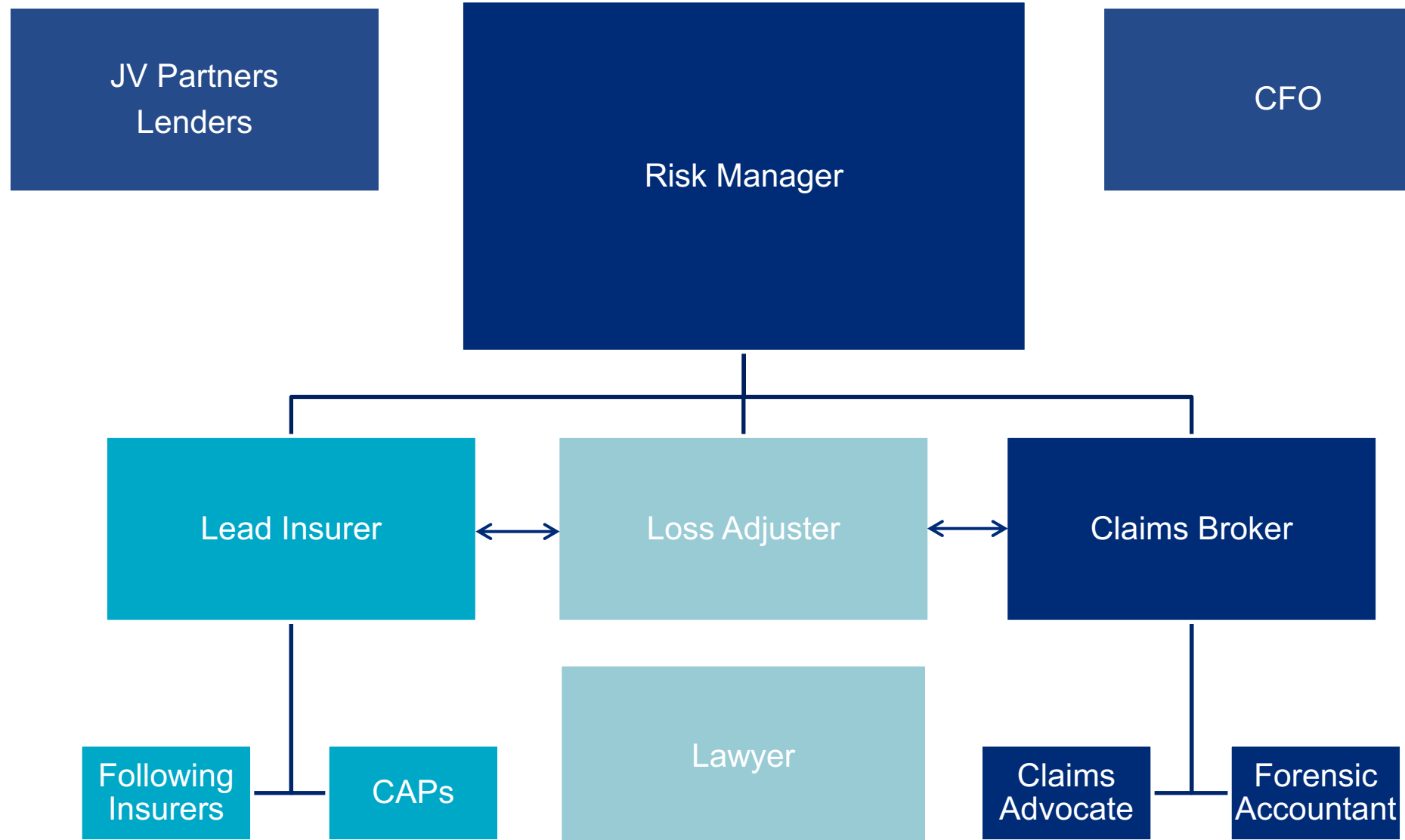
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**ENERGY
CLAIMS**
CONFERENCE

Wind Turbine Generators - Blade Failures

- Major UK energy provider
- Serial defect causes damage to multiple turbine blades during operation.
- Extensive Jack-up campaign to repair.
- Series Loss Clause.



Stakeholders in Energy Claims



Stakeholders Specific to Wind Claims



Question

Who is the most important stakeholder in a claim situation?

a) The Claims Broker

c) The Client

b) The Lead Insurer

d) The Lawyer

Claims Agreement Parties (CAPs) and The Single Claims Agreement Party (SCAP)

CAPs

- Contribute expertise and support.
- Can affect payment speed.

SCAP

- Removes need for CAP agreement.
- Aimed at streamlining claims.

Question

What is the most important factor for moving a claim forward to a final solution?

a) Communication

c) Information

b) Money

d) The Lawyer



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Introduction to Offshore Wind and Insurance

Lillehammer Energy Claims conference



Orsted

Kristina Nielsen, Risk and Insurance Manager

7 March 2018

Agenda

- A bit of history
- What does an offshore wind farm look like?
- Technology development
- Construction of a wind farm
- What goes wrong?

Where it all began...

1991:

Vindeby, Denmark

11 turbines – total of 4,95MW



C:\Users\KRINL\Desktop\Vindeby_1991_DK_ref.mp4

2003:

Nysted Offshore Wind Park, Denmark

North Hoyle, Wales

2008:

UK takes off – first round

Today:

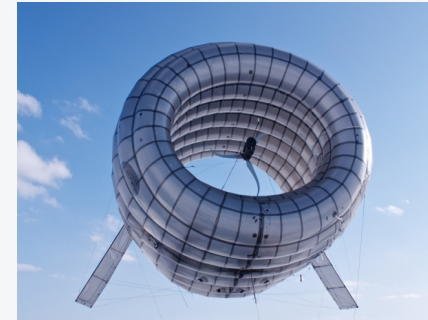
<https://www.youtube.com/watch?v=exPkb8qNY04>

Territories:

- Denmark and UK forerunners
- Northern Europe
- Rest of Europe
- Asia
- US

Technologies

- Floating turbines
- Cluster offshore transformers
- Flying turbines

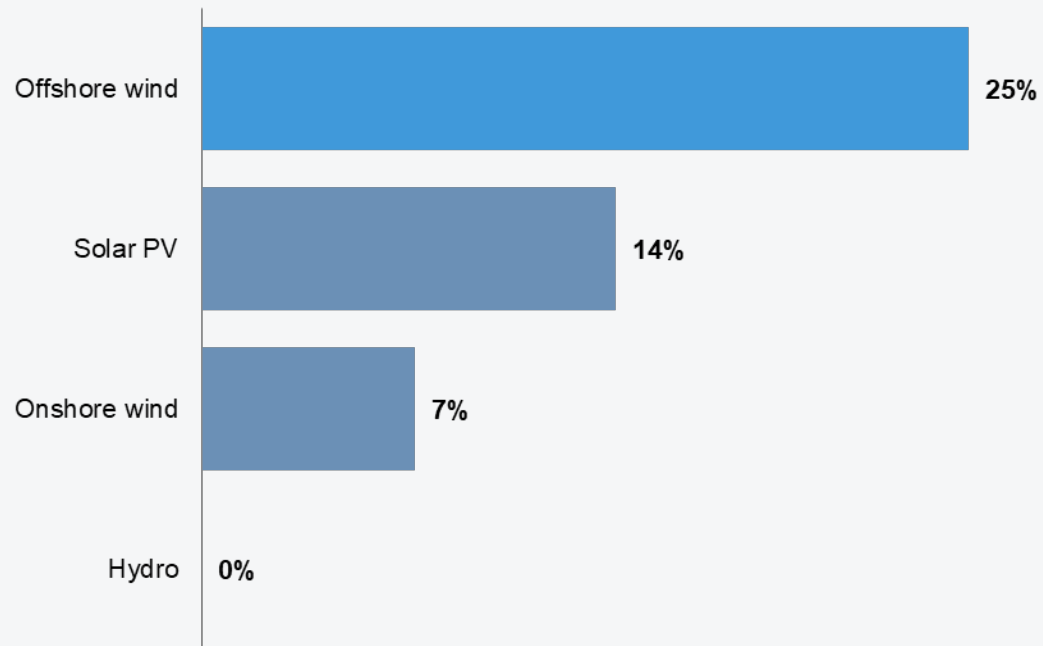


Offshore wind is a large scale renewable technology with growth rates exceeding other renewables

Fastest growing renewable technology in OECD

Installed capacity CAGR, 2014-2020

%



Offshore wind offers multiple advantages

Utility size power generation

659 MW Walney Extension will power more than 460,000 UK homes

Offers +45% capacity factors

Significantly higher than onshore wind and solar PV

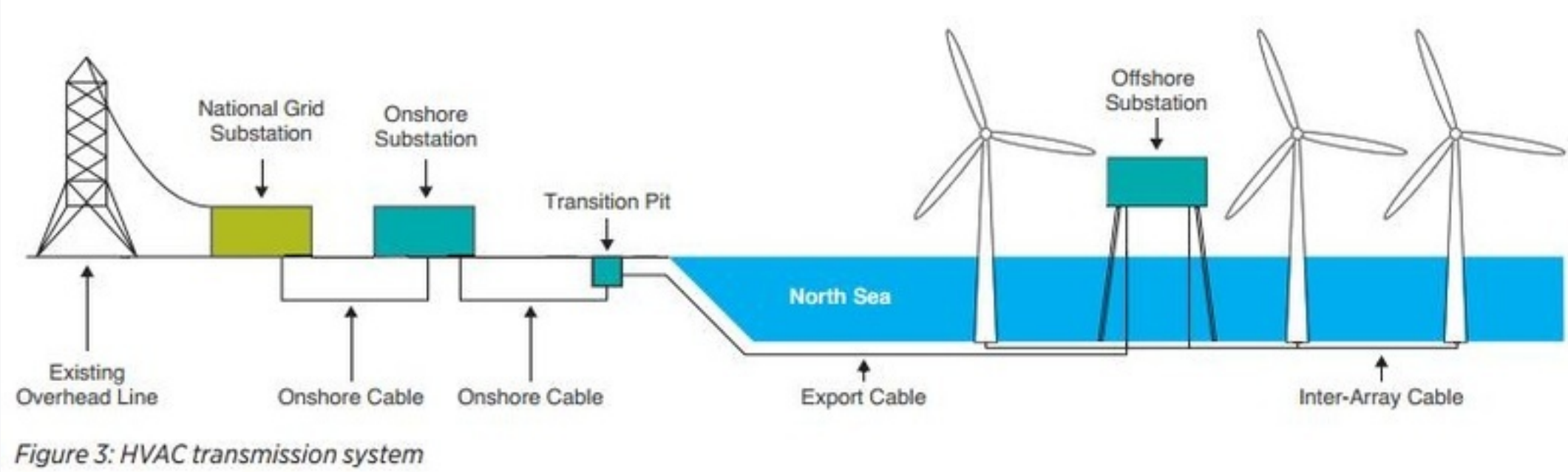
Rapidly declining cost

Industry maturity, volume and technological development reduce LCoE³

Limited visual impact on landscape

Wind farms are built far from shore

Offshore wind farm structure



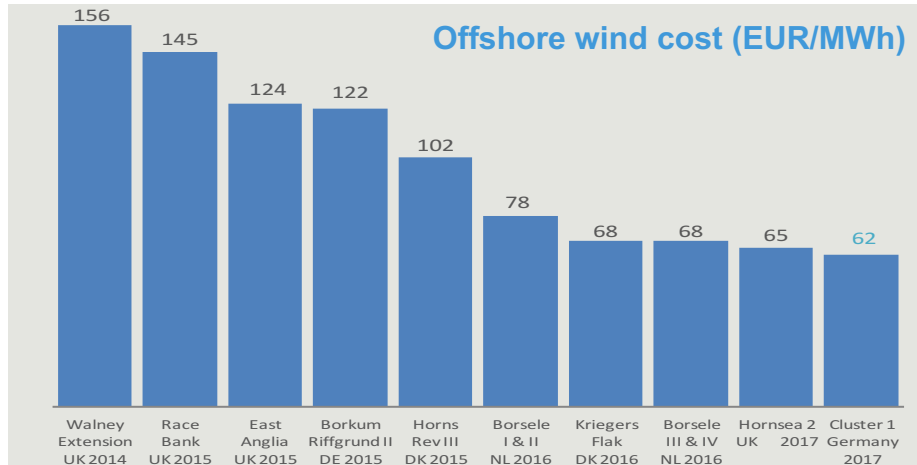
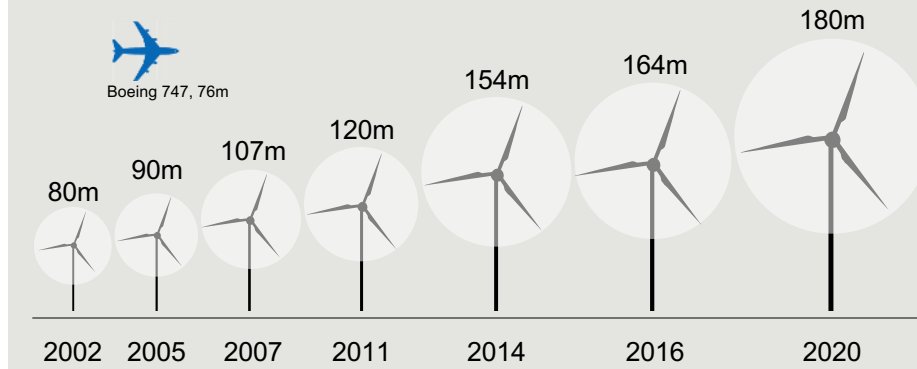
Technological development

Multiple levers to drive down cost in offshore wind

	Development	Impact
Scale	<ul style="list-style-type: none"> Turbines and rotor size: 6-8 MW → +10 MW 	<ul style="list-style-type: none"> Fewer positions
	<ul style="list-style-type: none"> Sites: 200-300 MW → +1 GW 	<ul style="list-style-type: none"> Greater overhead leverage Scale effects
	<ul style="list-style-type: none"> Vessel size: 2-4 wind turbines → 8 wind turbines 	<ul style="list-style-type: none"> Less transit time Higher utilisation
	<ul style="list-style-type: none"> Cable capacity: 300 MW → 400 MW 	<ul style="list-style-type: none"> Fewer substations Fewer cables
Innovation	<ul style="list-style-type: none"> Foundation design: Monopile → Suction bucket jackets → floating 	<ul style="list-style-type: none"> Greater water depth and heavier loads possible Faster installation time
	<ul style="list-style-type: none"> Gearbox: Gearbox vs direct drive 	<ul style="list-style-type: none"> Less maintenance
	<ul style="list-style-type: none"> Electrical: AC → 2nd generation HVDC1 Battery 	<ul style="list-style-type: none"> Longer distance to shore Less grid loss Storage
Industrialisation	<ul style="list-style-type: none"> Supply base: Single supply → Multiple global suppliers and purpose built factories 	<ul style="list-style-type: none"> Broader and more robust supply base Low-cost country sourcing Efficient production

1. High-voltage direct current transmission

Rapid technological development Wind turbine rotor diameter, year of commissioning



Construction of a wind farm – special features

- Environmental/consent issues
- Changing conditions
- Many interfaces/risk transfers - many contractors
- Interfaces with external parties
- Fast technology development
- Assets are “off the shelf”
- Heavy lifts
- Many fix points
- Power cables...

What goes wrong?

- Typical losses
 - Frequency
 - Cables and foundations
- Contractual issues
 - Contractors pushing risk onto developer
- Use of MWS
- Policy wordings
 - Interpretations vary
 - Old Marine and Welcar wording merged with Onshore wind wordings continuously being developed

Questions

– Which assets are most often damaged during offshore wind construction projects?

A. Foundations

B. Cables

C. Turbines

D. Blades

– How many households did Vindeby provide electricity to?

A. 100

B. 2.200

C. 50.000

D. 460.000

Questions?

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LOPI

Adrian McAndrew (AIG)
&
Arianna Dean (Zurich)

Lillehammer ECC 2018

Wednesday 7th March 2018



Disclaimer:

These are my views and only my views. They should not be taken to express the views of AIG and/or Zurich or, for that matter, anyone else. They are expressed entirely without prejudice.



Question

Have you ever handled a LOPI Loss?

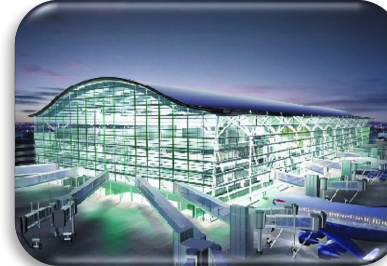
- a) Yes
- b) No
- c) What is LOPI?



Business Interruption



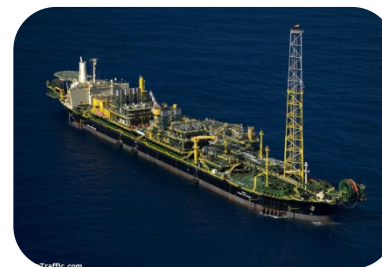
Contingent Business Interruption



Delay In Start-Up



Loss of Hire



Loss Of Production Income



Business Interruption





Contingent Business Interruption





Loss Of Hire





Delay in Start-Up





LOPI



Wednesday 7th March 2018

Adrian McAndrew & Arianna Dean

RIG on FIRE and / or damaged subsea infrastructure





Upstream Energy Losses



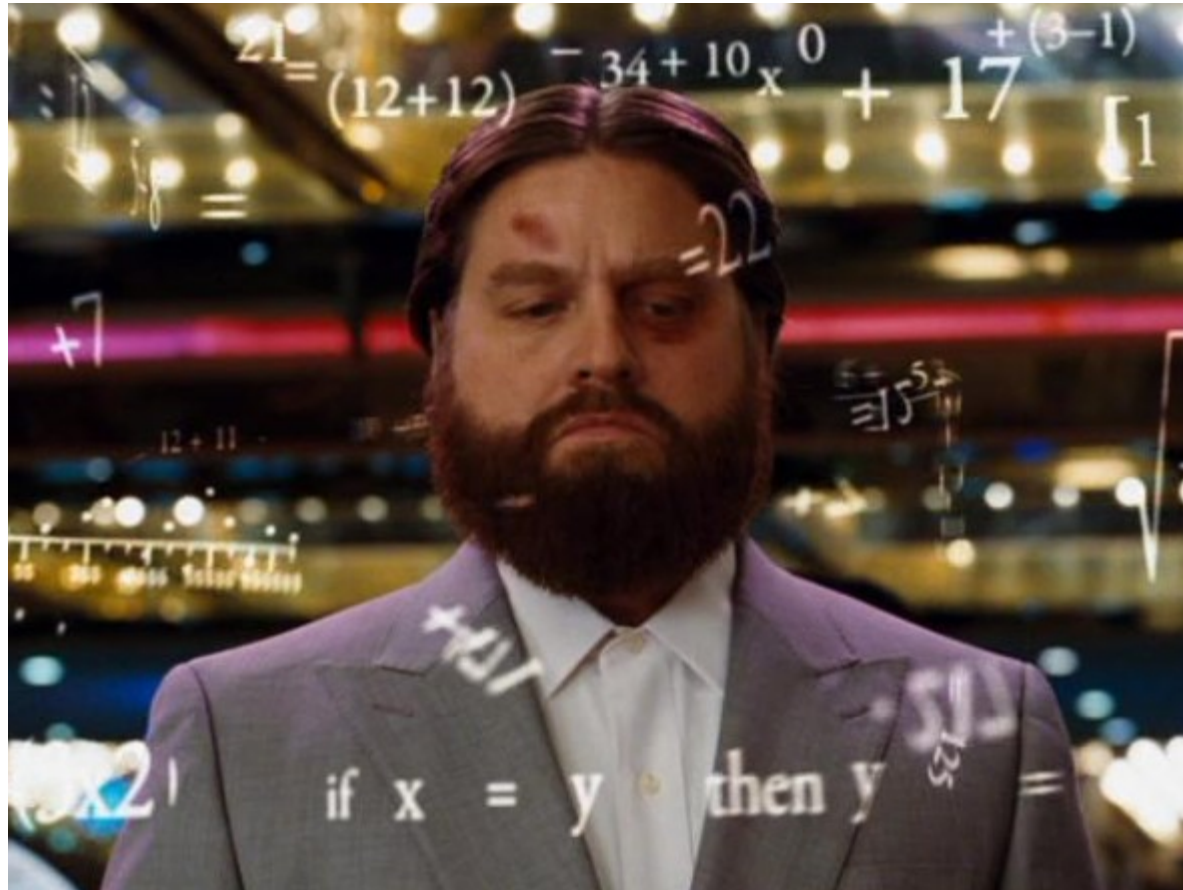


The beginning of LOPI

- Introduced in the 90s
- One year Indemnity Period
- Lower fixed price (bbls)
- Need to protect Insureds' revenue stream



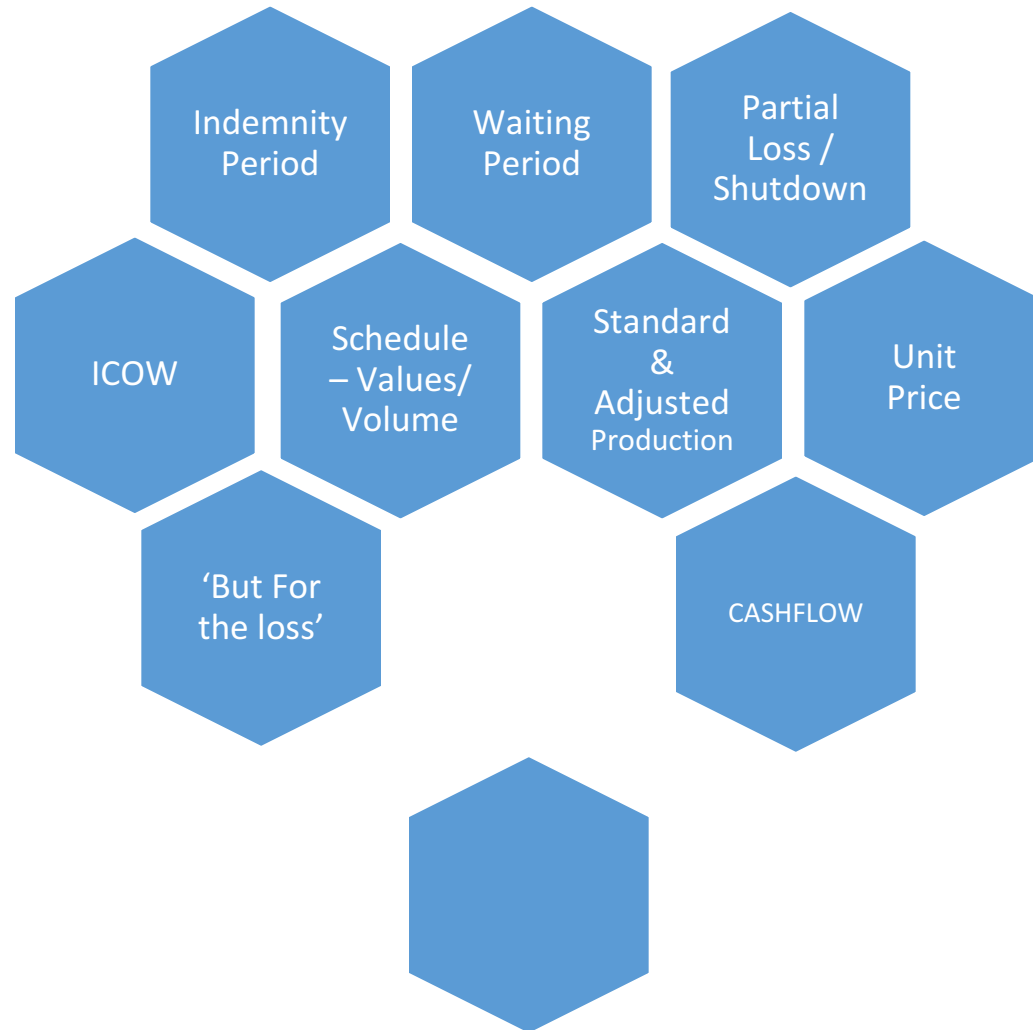
Calculating Loss Of Production



Unit Price x Volume = Claim

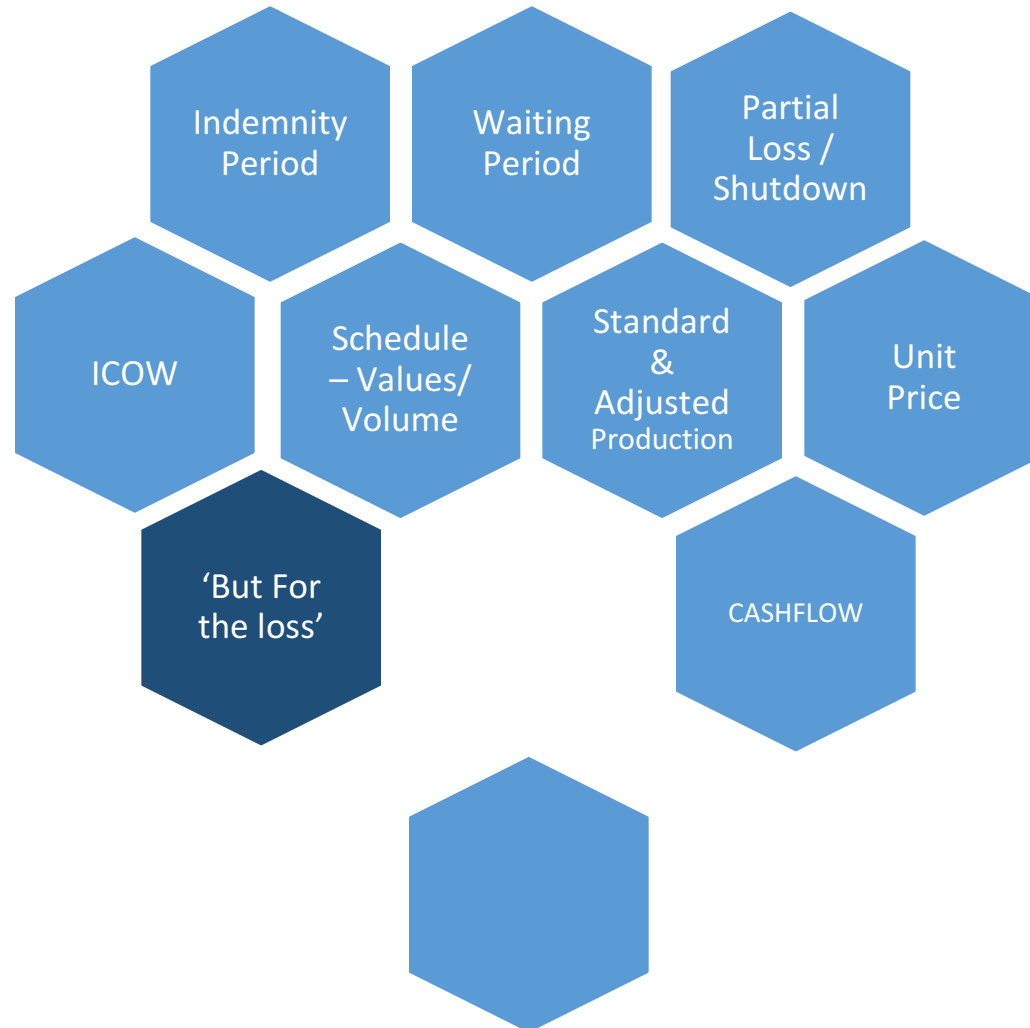


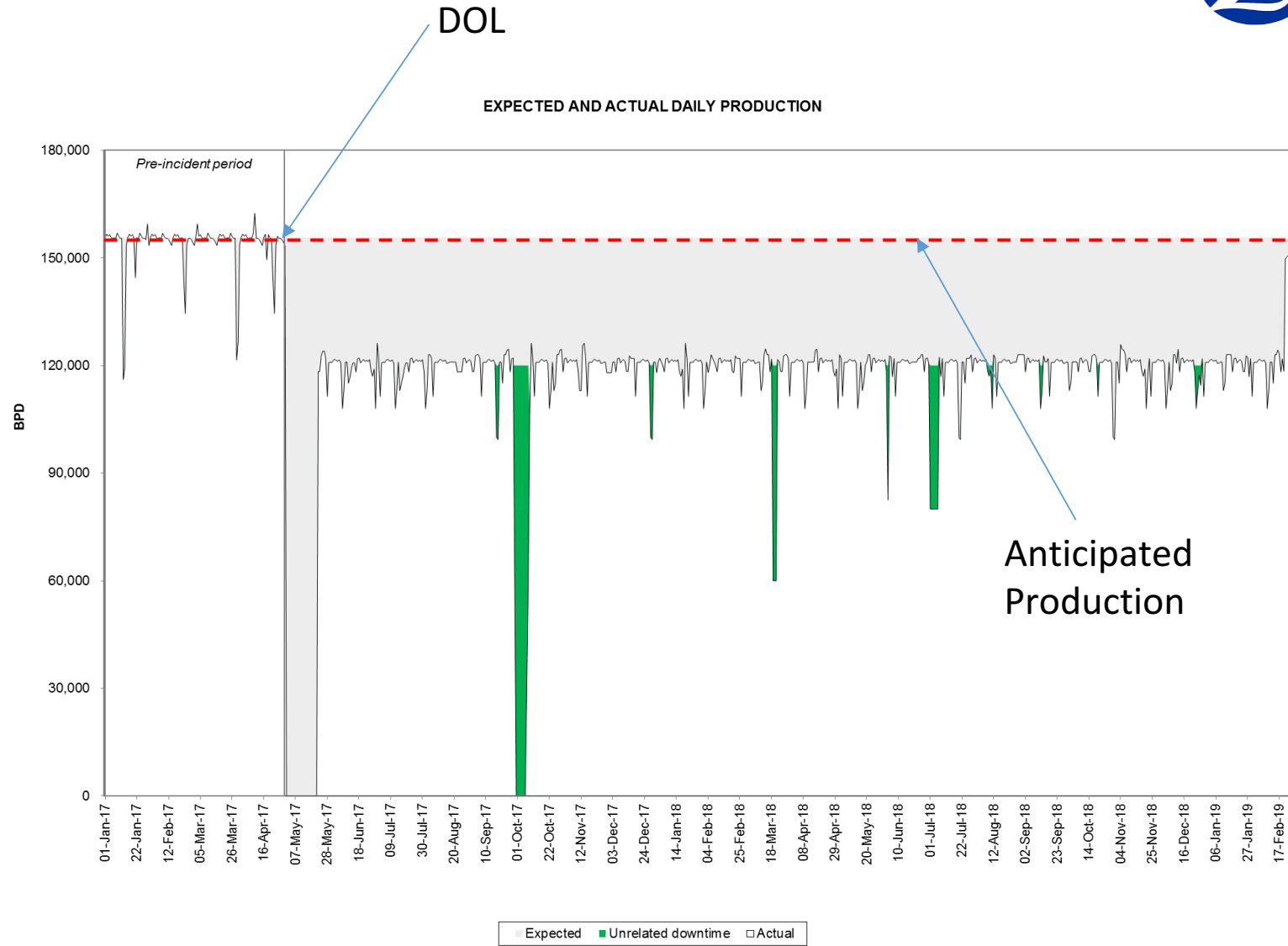
What is LOPI?





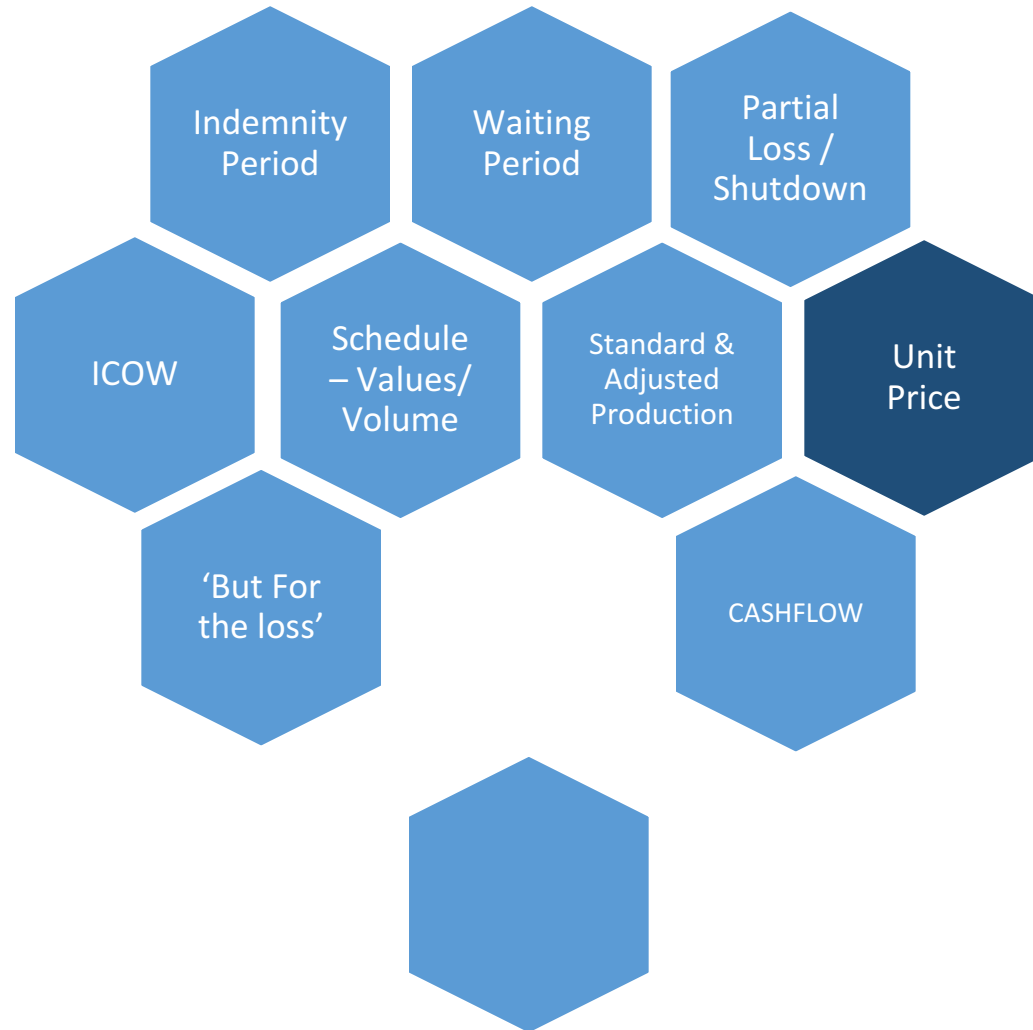
What is LOPI?







What is LOPI?



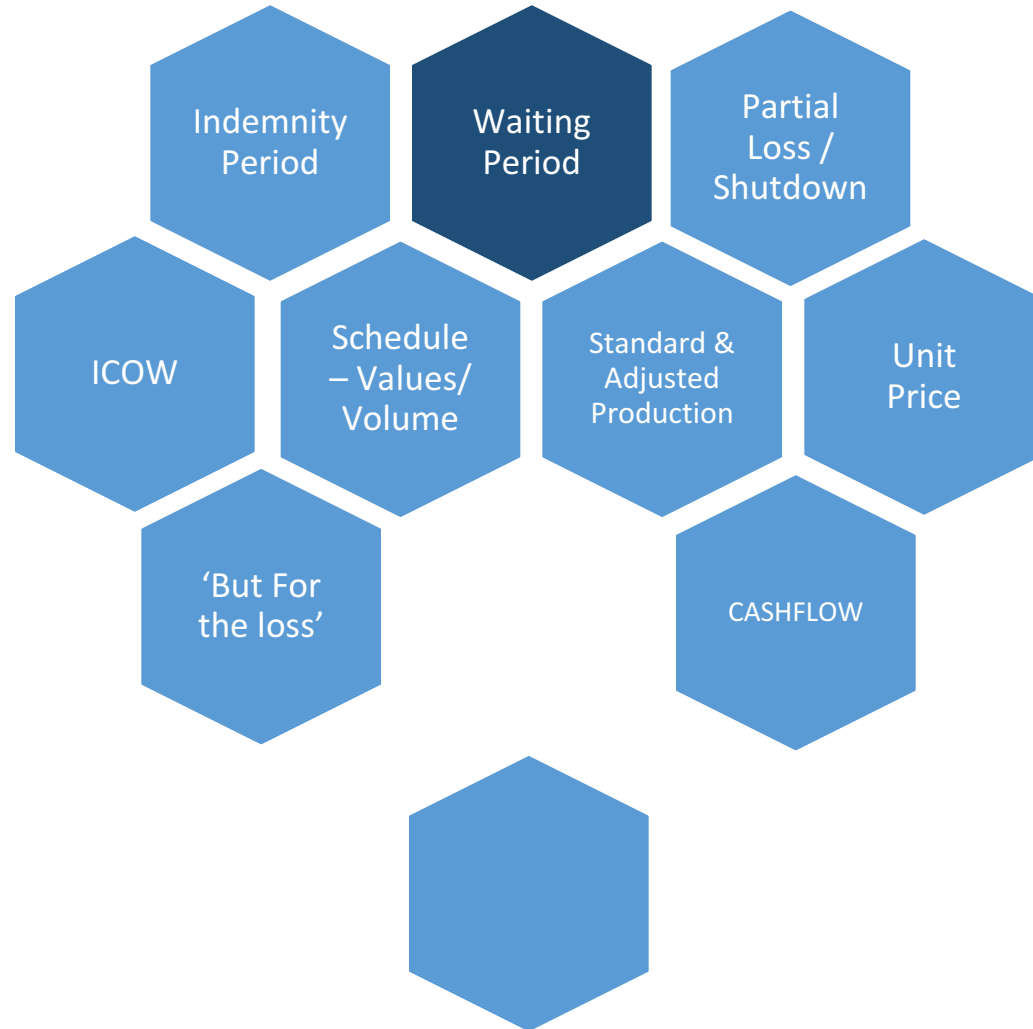


Example: twelve month indemnity Declared vs spot pricing



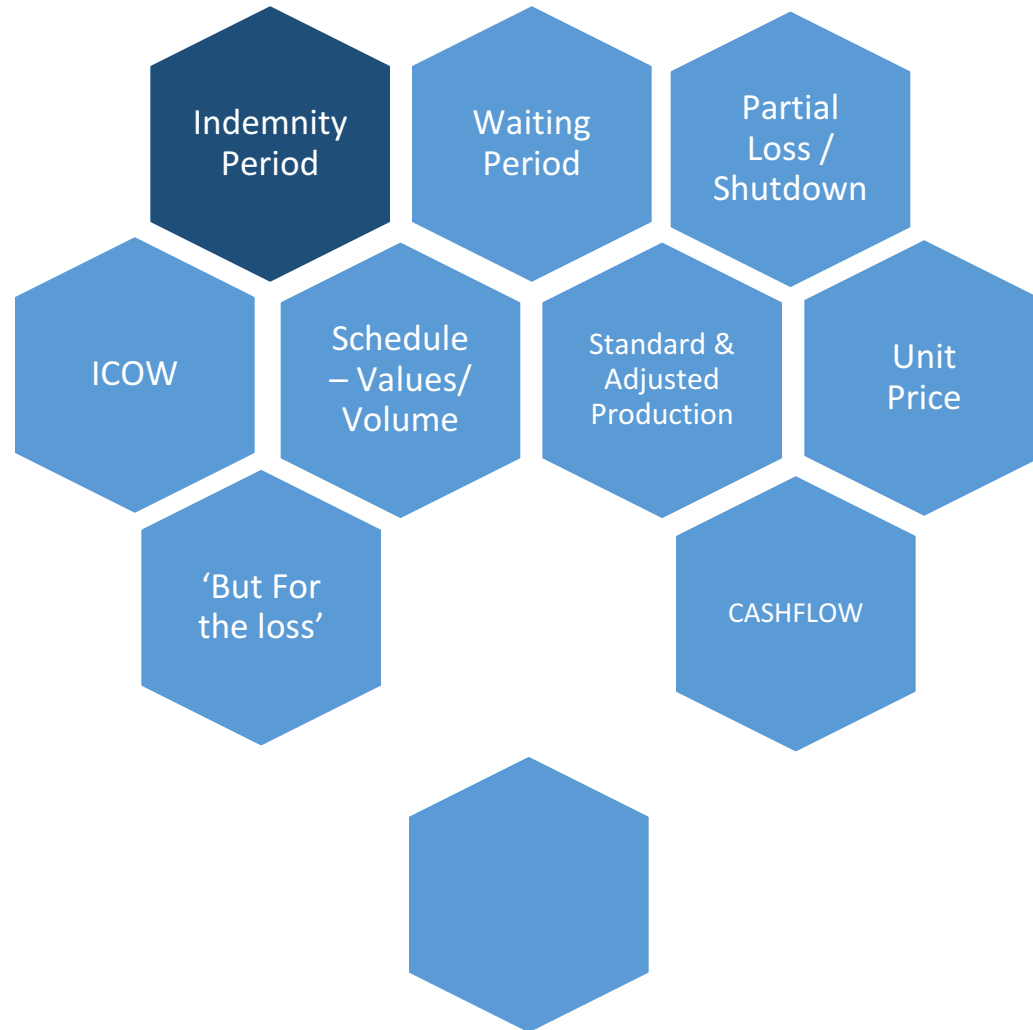


What is LOPI?





What is LOPI?



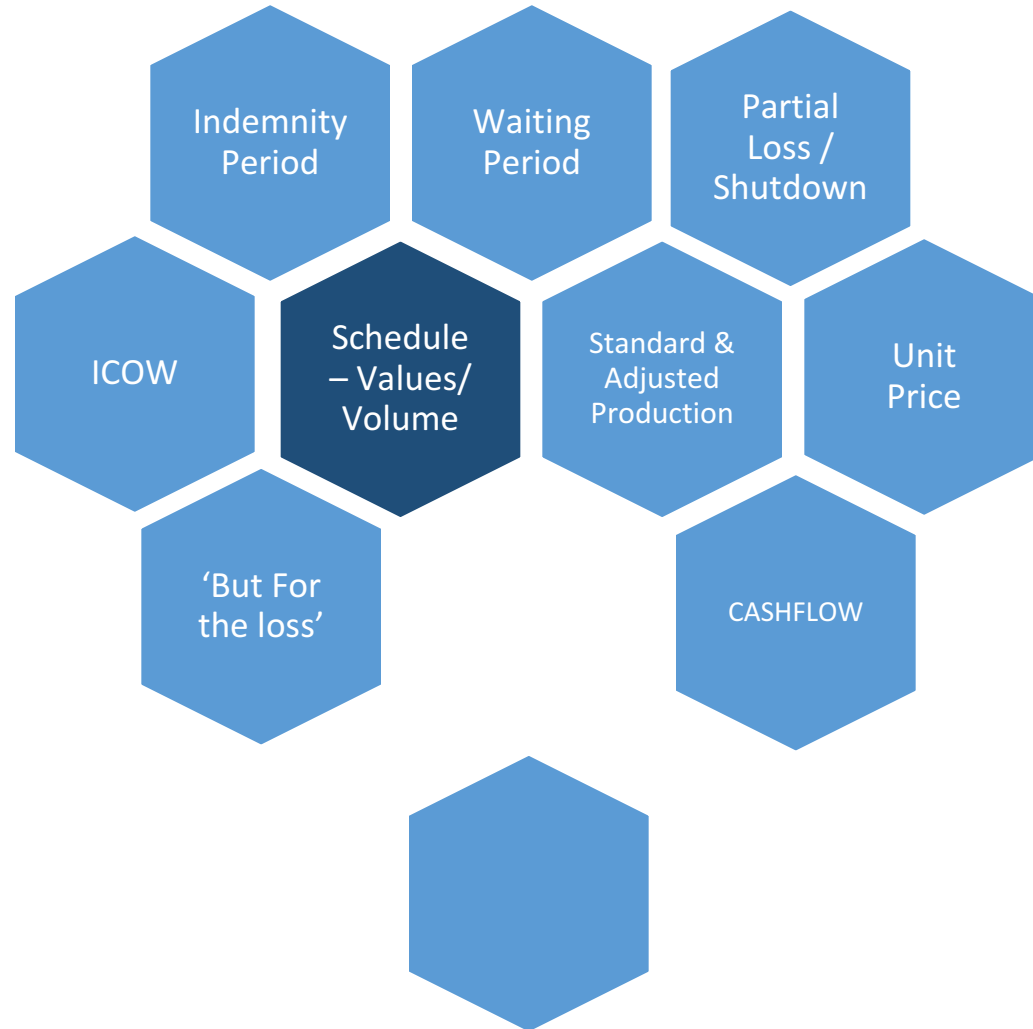


For Example:





What is LOPI?





Schedule Example

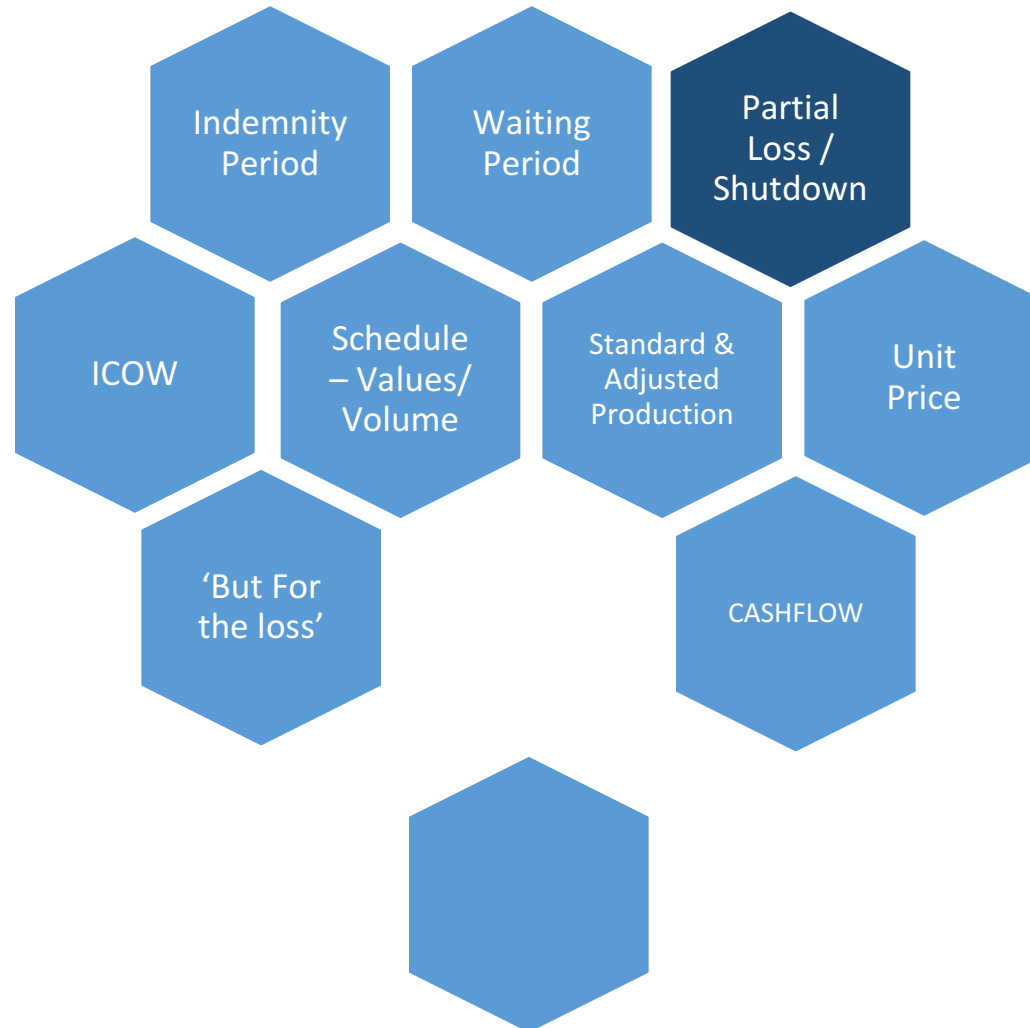


McAri Field	BOPD	100	\$20	\$2,000	60	365

Occurrence Limit: \$500,000
Standard Period: 180 Days

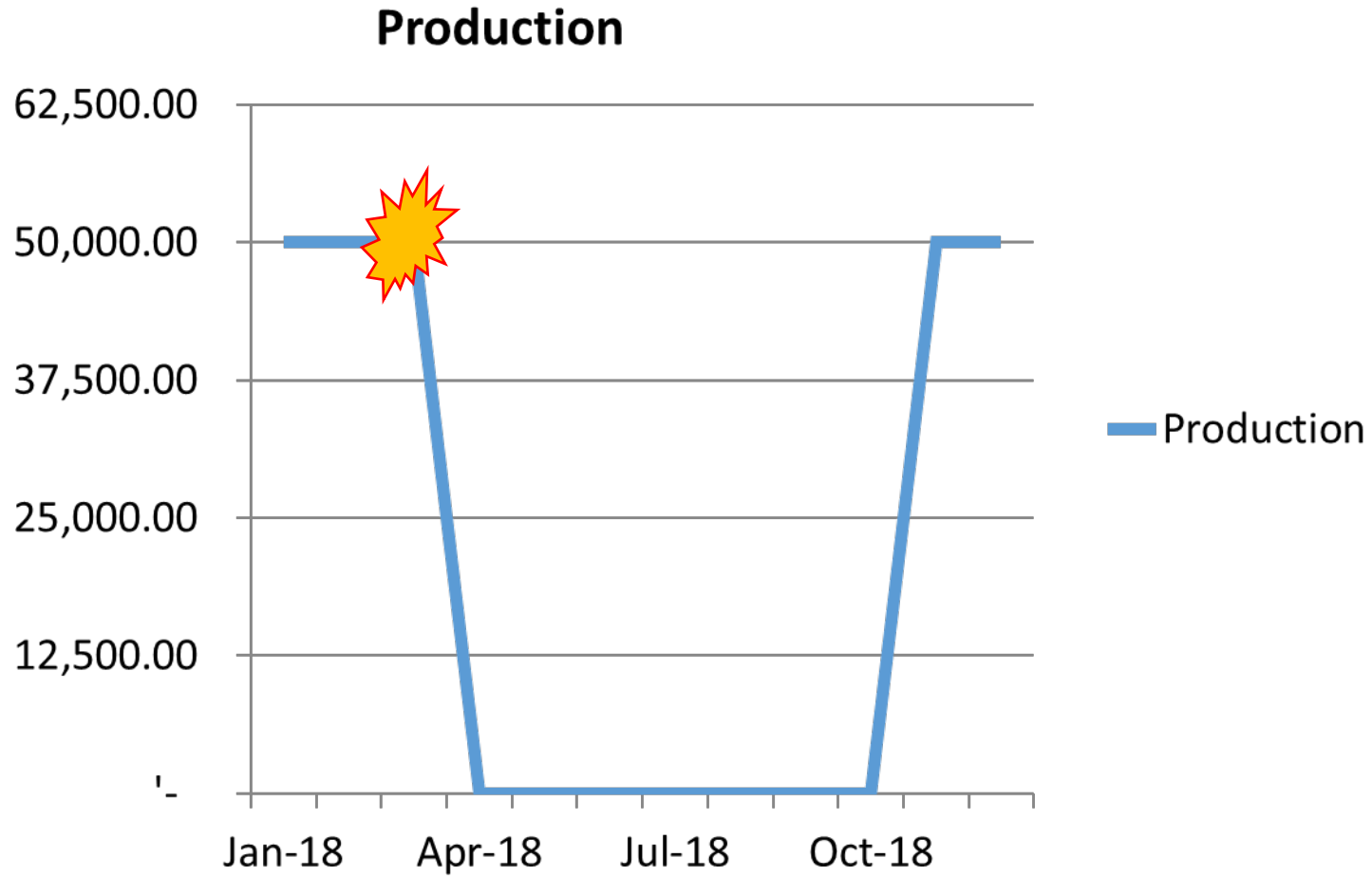


What is LOPI?



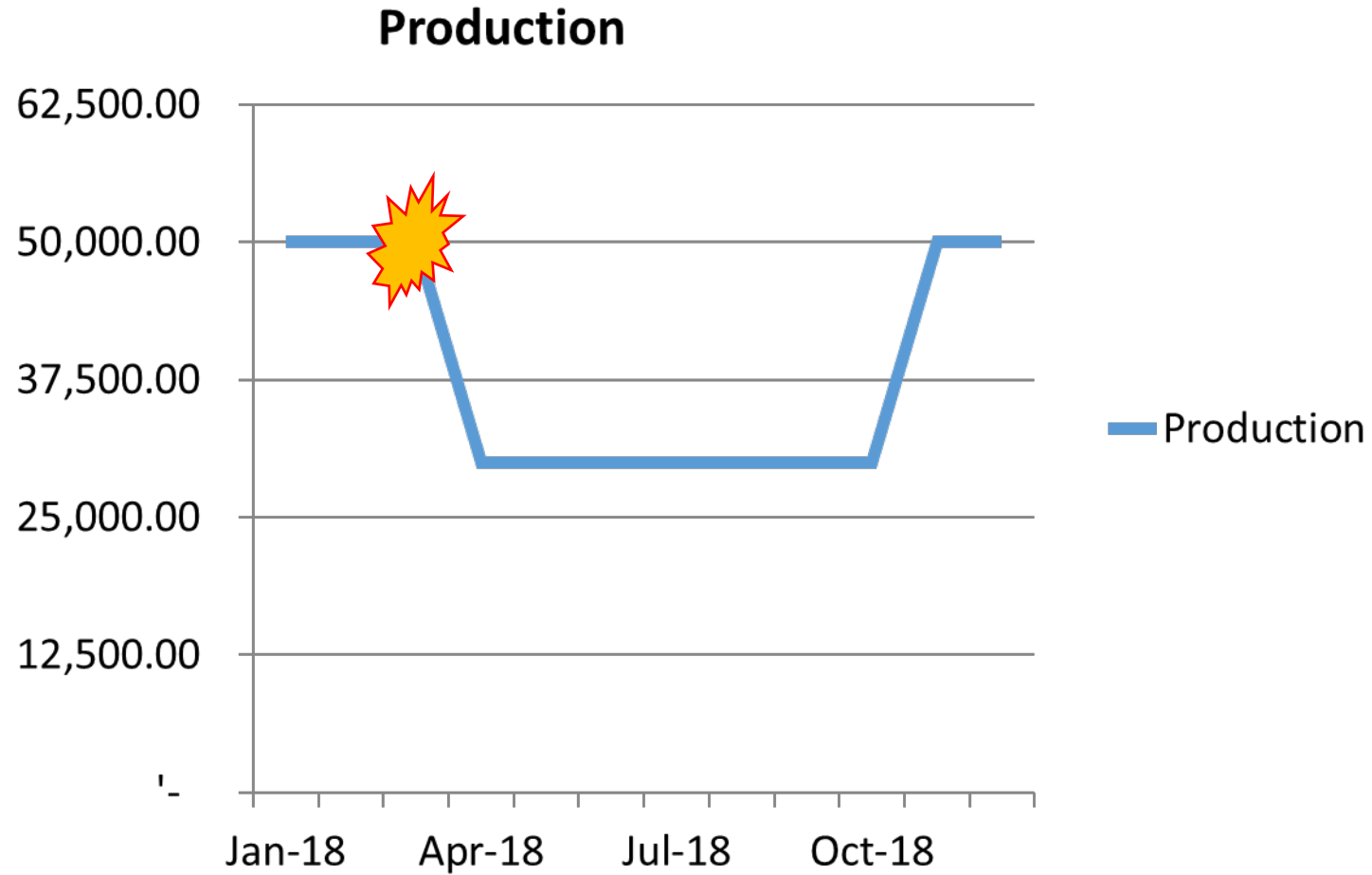


Shutdown Example



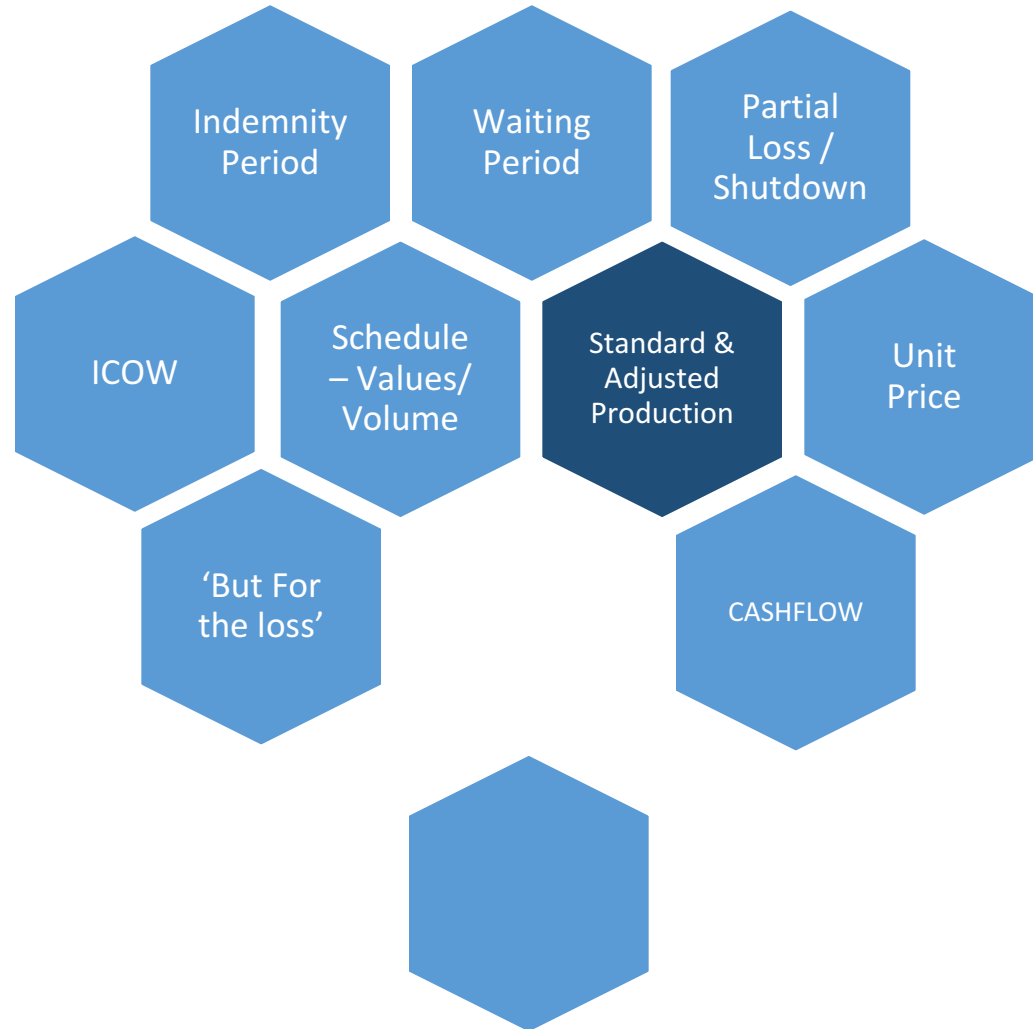


Partial Loss Example



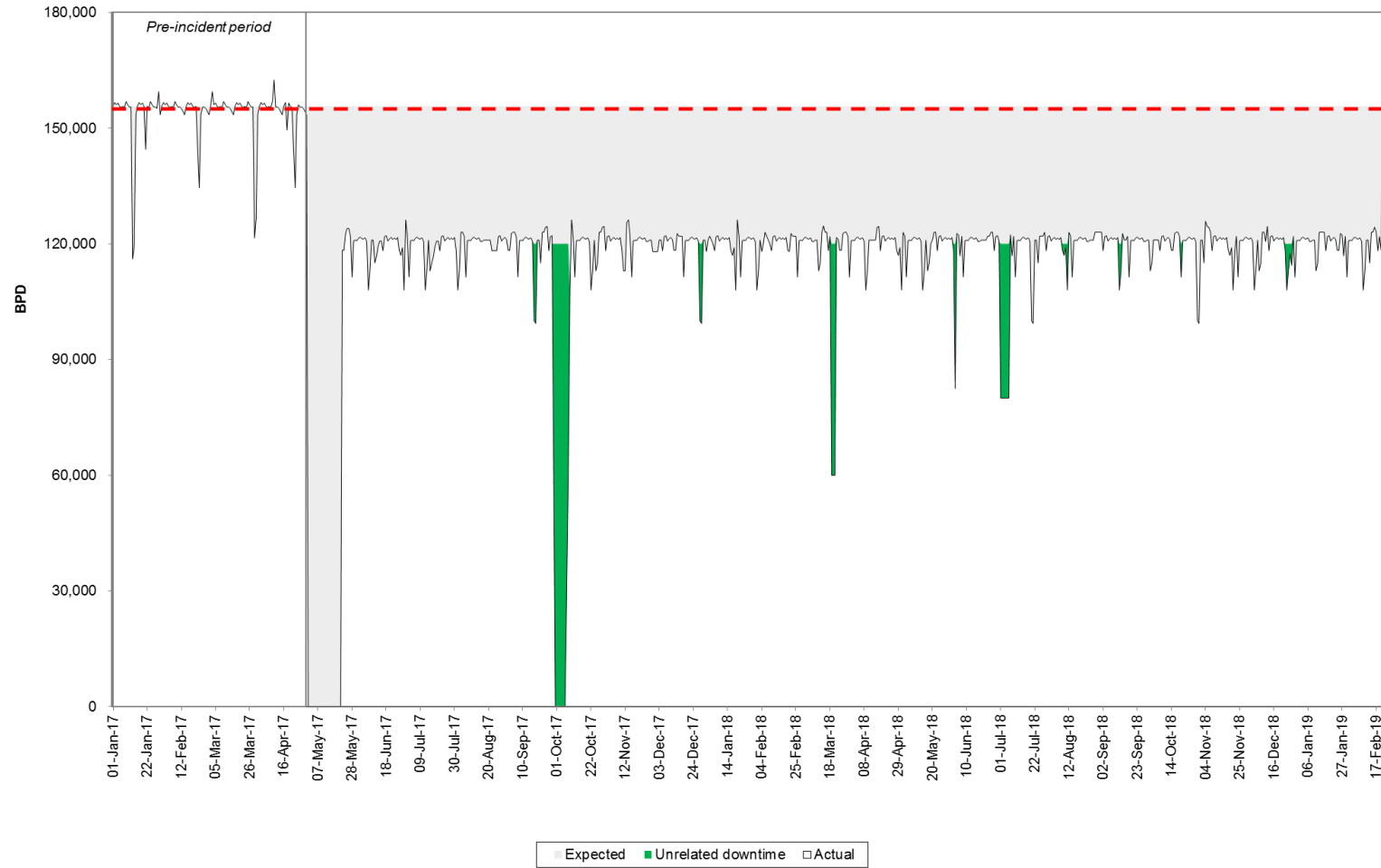


What is LOPI?





EXPECTED AND ACTUAL DAILY PRODUCTION





Standard Production (180 Days)

Adjusted to

Adjusted Production

Less

Actual Production

Equals

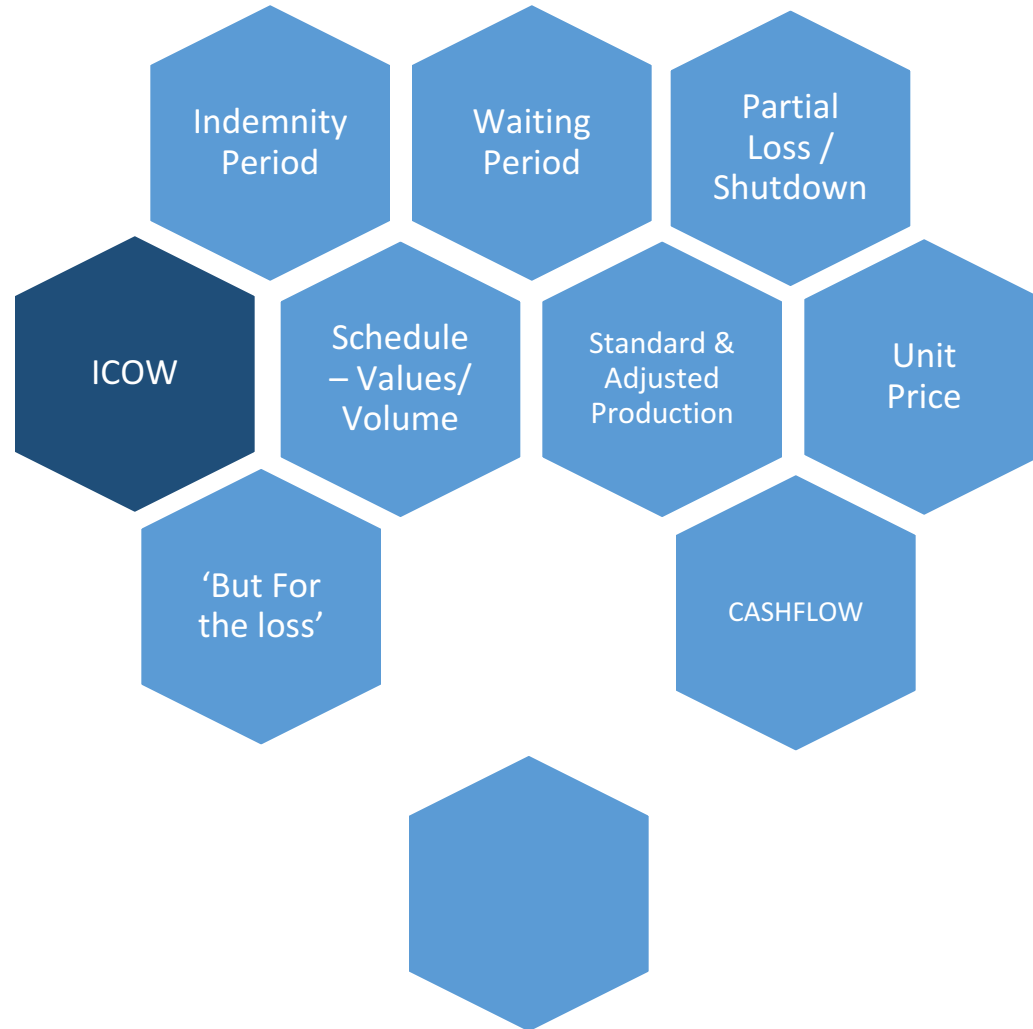
Loss of Production

Limited to **Unit Volume**





What is LOPI?

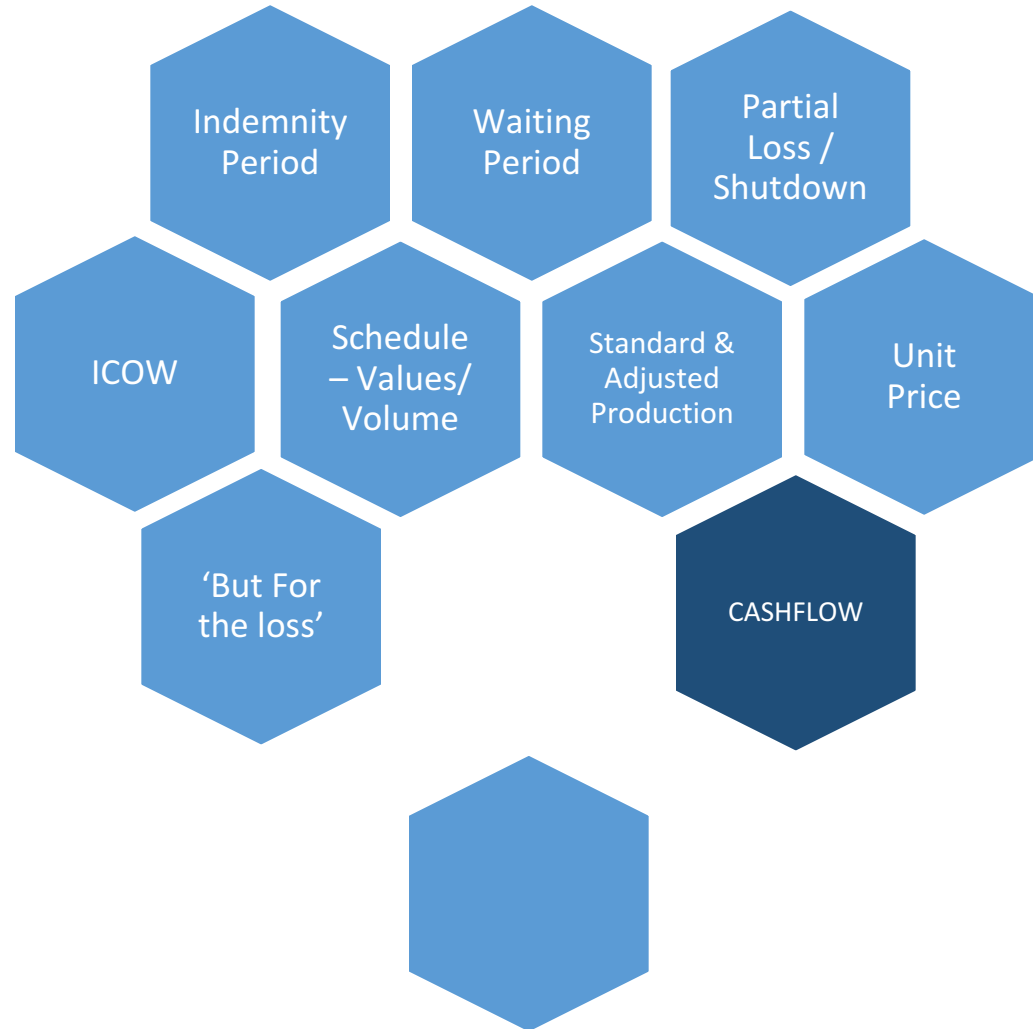


'We have carried out temporary repairs to ensure that production was resumed and as a result we avoided a potential loss of \$3MM in loss of production. We spent \$2MM.'





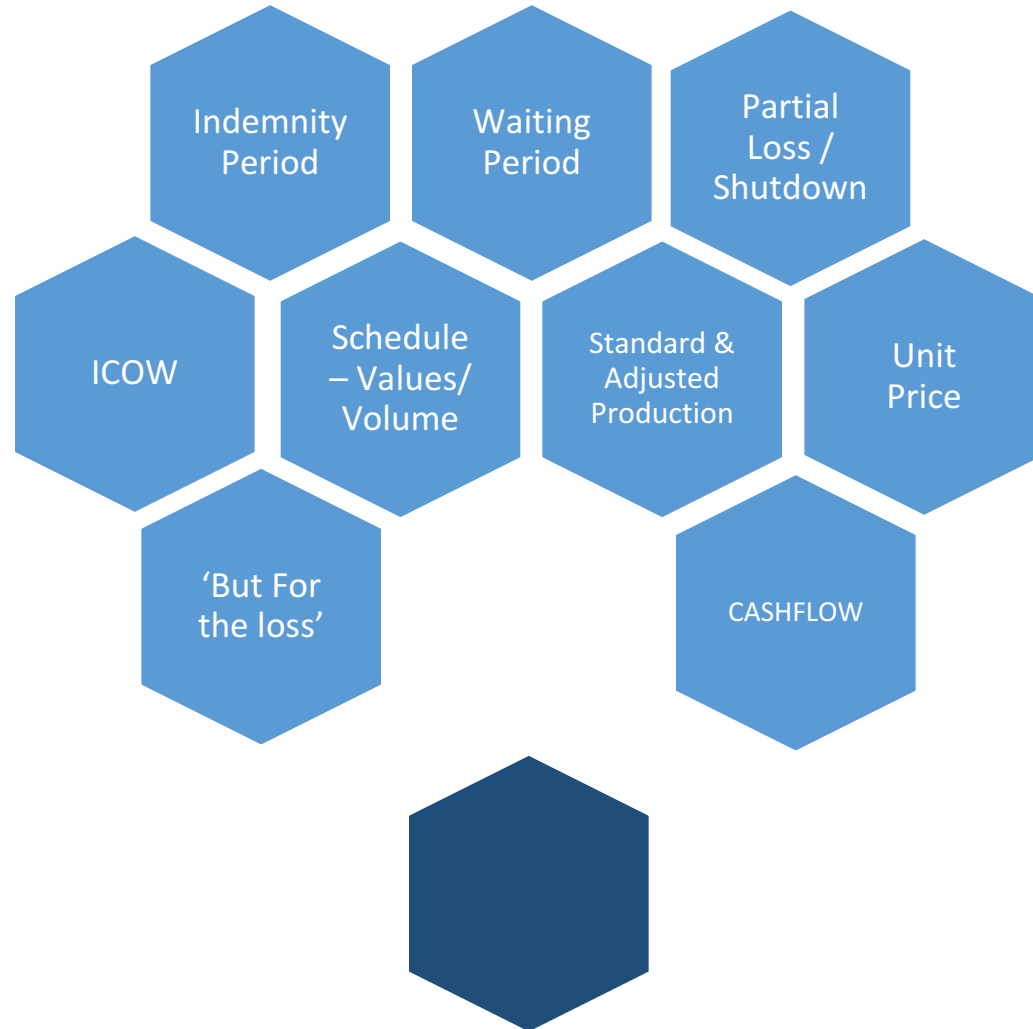
What is LOPI?

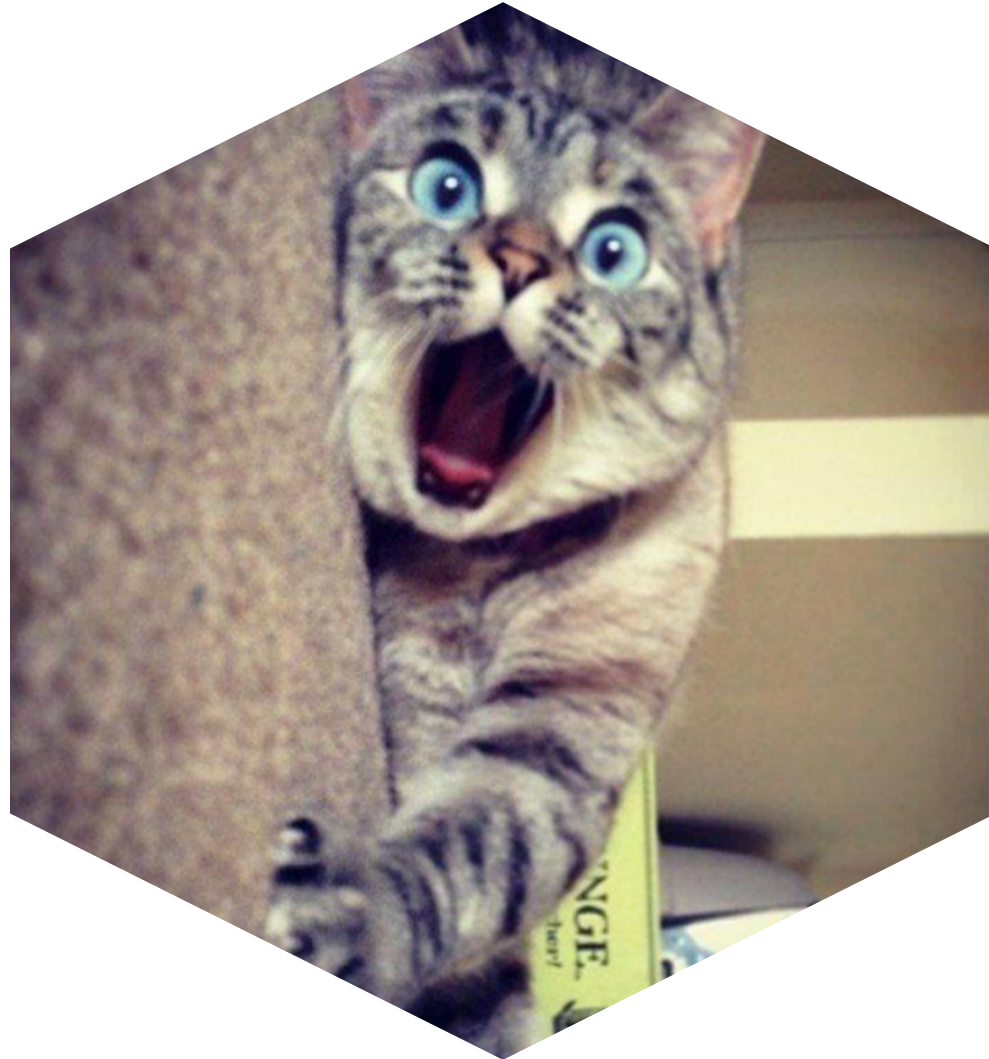






What is LOPI?



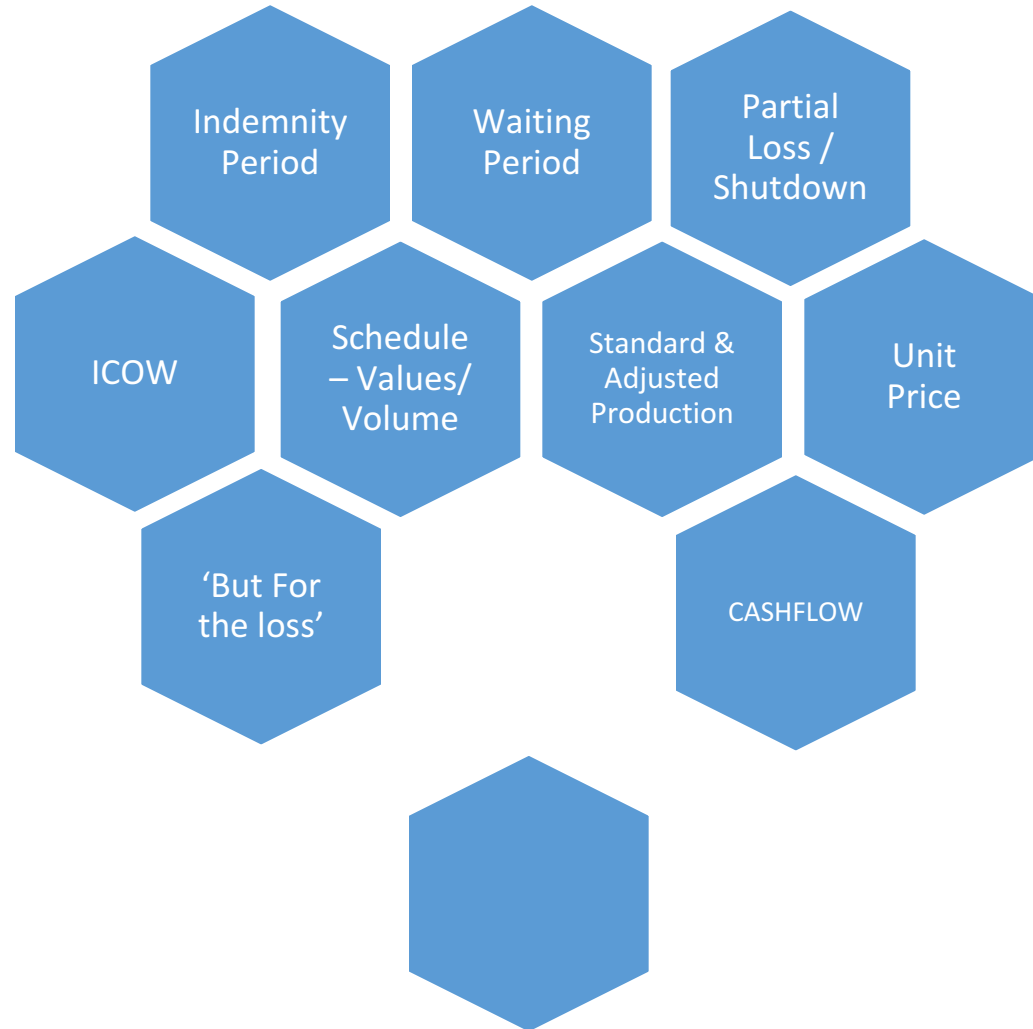


Wednesday 7th March 2018

Adrian McAndrew & Arianna Dean



This is LOPI

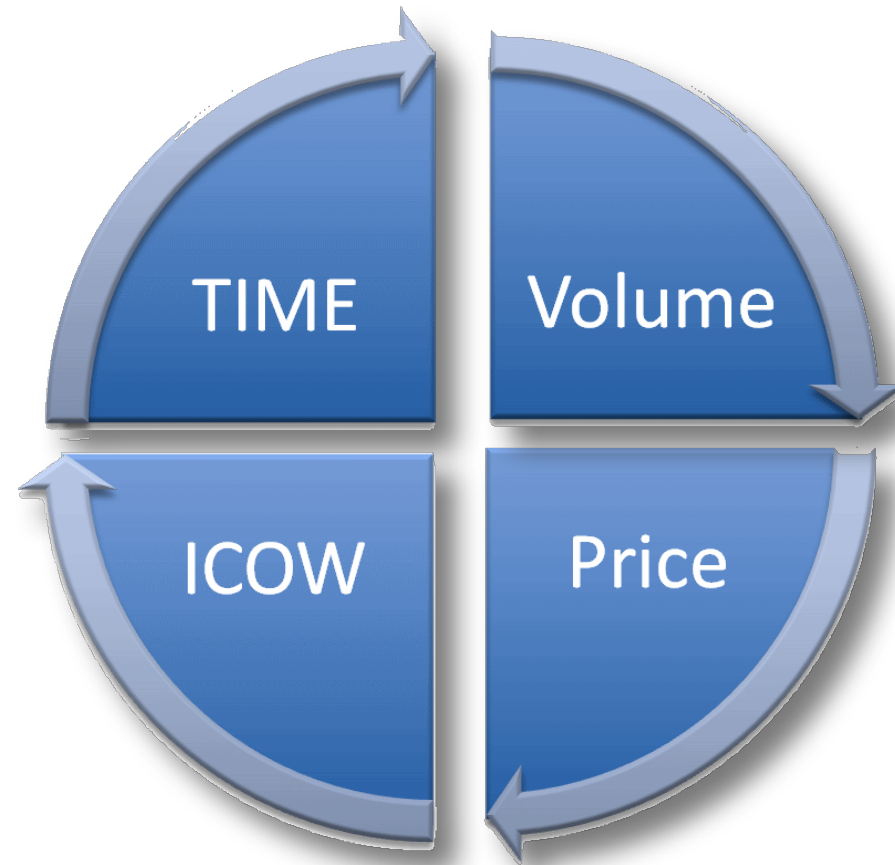




Adjusting a LOPI Claim

- Stakeholders
- Appointment of Experts
- Coverage determination
- Payment plans

To summarise....





THANK YOU

Q & A

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Why is wreck removal necessary and who pays for it?

Lillehammer Energy Claims Conference

Angela Haylett, Wednesday 7 March 2018



What is a wreck?

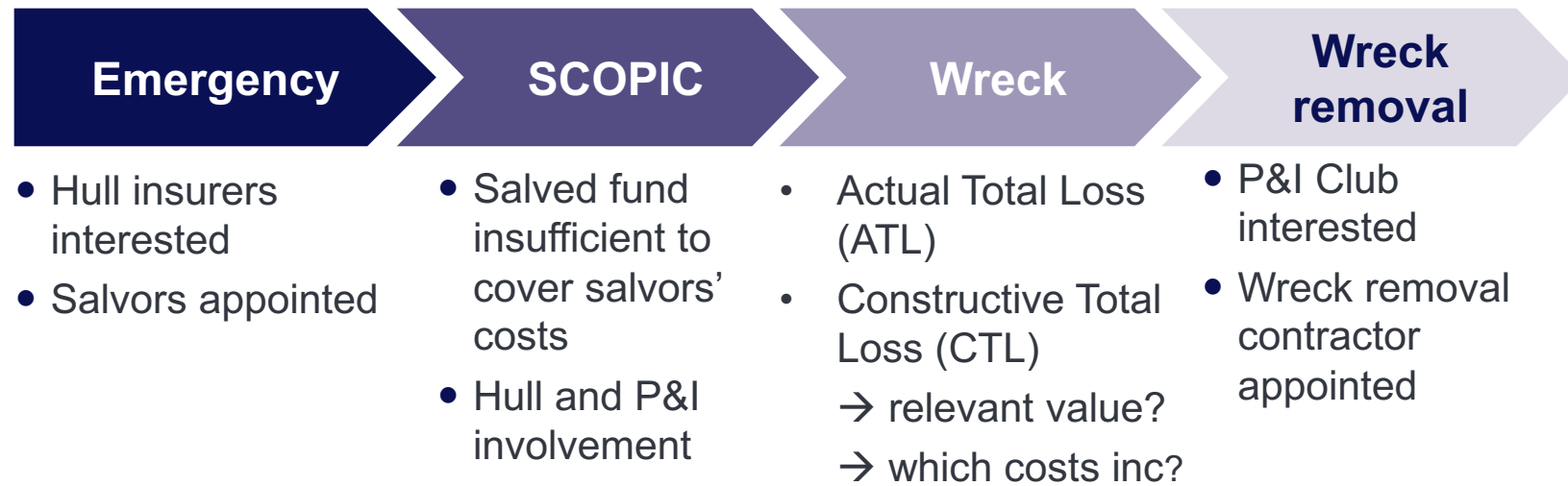
- Wreck of a vessel e.g. tanker, rig or FPSO – includes any object which is or has been on the ship



- Wreck of other offshore energy units e.g. fixed platforms or pipelines – located offshore



When does an emergency become a wreck?

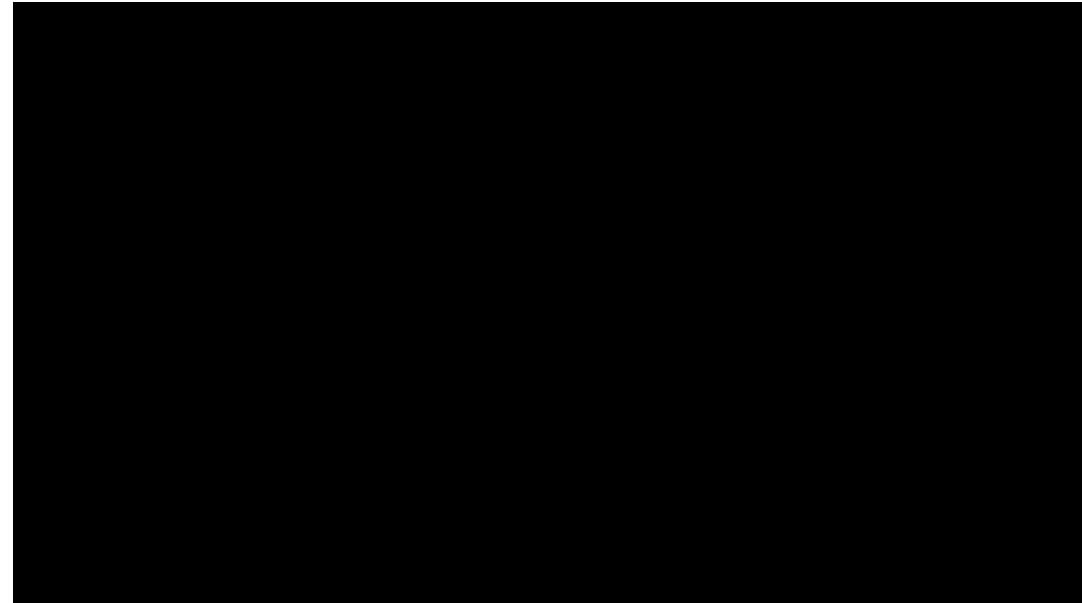


Why bother to remove the wreck? (1)



ABAN PEARL semi-submersible offshore drilling rig – sank offshore Venezuela in 160m of water in May 2010

Wreck never removed



PERRO NEGRO 6 jack-up rig – sank offshore Angola in 40m of water in July 2013

Wreck partially removed within 2 years

Why bother to remove the wreck? (2)

- Local Authority Regulatory Orders
 - (i) Threat to navigation
 - (ii) Threat to marine environment
 - (iii) Condition of seabed
- International Conventions
 - (i) Nairobi International Convention on the Removal of Wrecks, 2007 – came into force 14 April 2015
 - (ii) United Nations Convention on the Law of the Sea
 - (iii) London Dumping Convention 1976 and Protocol
 - (iv) Convention for the Protection of the Marine Environment of the North-East Atlantic (OSPAR)

**WRECK
REMOVAL
ORDER**

Nairobi Convention

- Significant development in international wreck removal – strict liability and compulsory insurance (and direct right for state to claim against insurers)
- In force in key offshore jurisdictions e.g. UK, Denmark, Nigeria but NOT in others e.g. Norway, Mexico, Venezuela, Saudi Arabia

BUT



- Applies to all seagoing vessels including “*submersible floating craft and floating platforms except when such platforms are on location engaged in the exploration, exploitation or production of seabed mineral resources.*”

Response to Wreck Removal Order

Considerations regarding WRO:

- Who issued it? Competent authority? Combination of authorities?
- Legal basis?
- Extent of removal required – full or partial?
- Final order or negotiable?
- Any basis of challenge?

Who pays to remove it?

- Owner of vessel responsible but generally covered by P&I to meet terms of WRO
- P&I also generally covers pollution clean-up
- But not a poolable P&I risk



Wreck removal process



Contract	Key features
WRECKFIXED	Lump sum payment – no cure no pay
WRECKSTAGE	Staged payments – risk sharing
WRECKHIRE	Daily rates with ceiling – owner’s right to terminate at any time

Non-vessel wrecks (1)

- Fixed structures – no P&I cover
- Wreck removal covered under CAR (covering all JV partners) or package policy (JVs usually separately insured)
- Usually limited by agreement to 25% of lost property's insured value but sometimes specific sub-limits per insured location or unit
- Cover broader than P&I ROW because covers liability imposed by law / regulatory authority AND voluntary removal of wreck that interferes with the assured's operations
- Clauses cover “wreck and/or debris”
- Contingent on covered event under relevant policy

Non-vessel wrecks (2)

- Possible no determination of ROW obligations until expiry of field licence – years or decades later
- Actual ROW costs unknown → often settled for an agreed amount

Piper Alpha platform –
exploded offshore Scotland in
144m of water in July 1988



390

Partners

2000

Legal
professionals

3600

Total staff

50+

Offices and associated
offices in 24 countries

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Oseberg Vestflanken. Source - Statoil

An Introduction to Cyber Risks in Offshore Energy

7th March 2018
Charlie Hann

Risk Solutions

Munich RE 

1. Facts & Statistics
2. Traditional Offshore Risks – Policy Cover Available
3. Cyber Risk – Physical Damage “Buyback”
4. Cyber Risk – Data Breach / Sensitive Data, Extended Cover, Ransomware
5. Cyber Risk – Breach Response

To what extent do Cyber Risks differ from Traditional Risks?

A) They are completely different

B) It depends

C) They're practically the same, just more expensive to manage

D) There is no difference

The Facts & Stats...

Hundreds of Norwegian energy companies hit by cyber-attacks

Cybersecurity spend expected to reach \$1.87bn in 2018

61% of organisations suggest that their security is inadequate!

68% of organisations have suffered disruption or loss of confidential information in the Operational Technology environment

Shamoon malware returns to again wipe Saudi-owned computers

Deloitte: Oil Firms Face Increasingly Sophisticated Cyber Attacks

Ukraine power cut 'was cyber-attack'

Examples of Remotely Controlled Operations

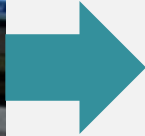


Traditional Offshore Energy Risks

- Control of Well – Operators Extra Expense Policies
- Physical Damage – Standard Platform Wording / Nordic Plan etc. Usually “All Risks”, some exclusions
- Liabilities – Pollution, Third Party Liabilities, Protection & Indemnity
- Financial Losses – Business Interruption, Loss of Production Income (LOPI) etc.

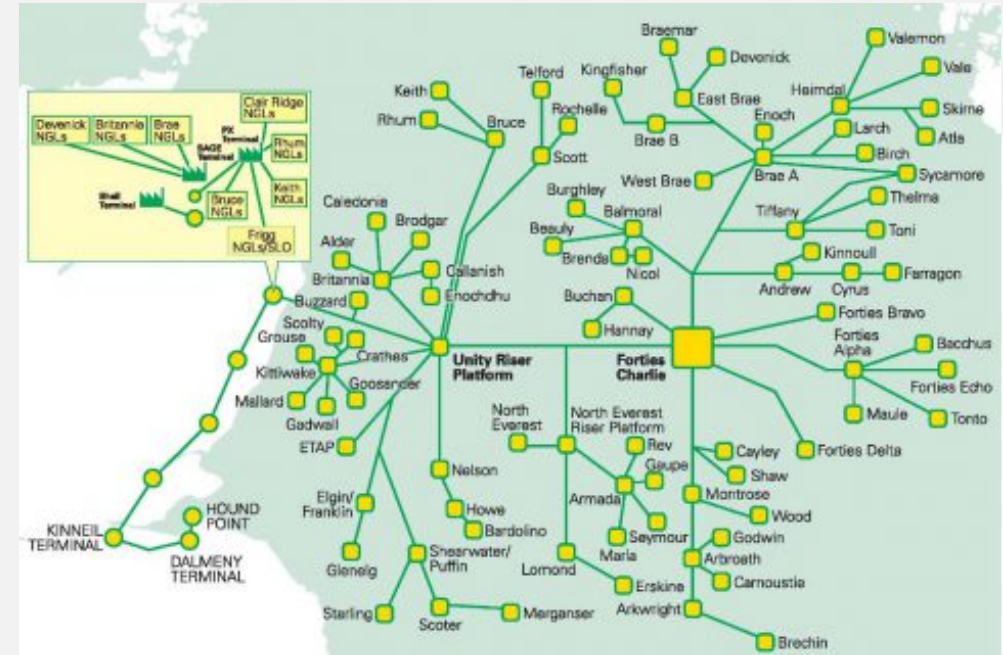


Cyber Risk – Exclusion “Buybacks”



Other Cyber Risks

- Failure to Supply
- Contingent Business Interruption
- Intellectual Property Loss
- Sensitive & Confidential Data
- Extortion
- Reputational Damage
- Non-Operating Interests



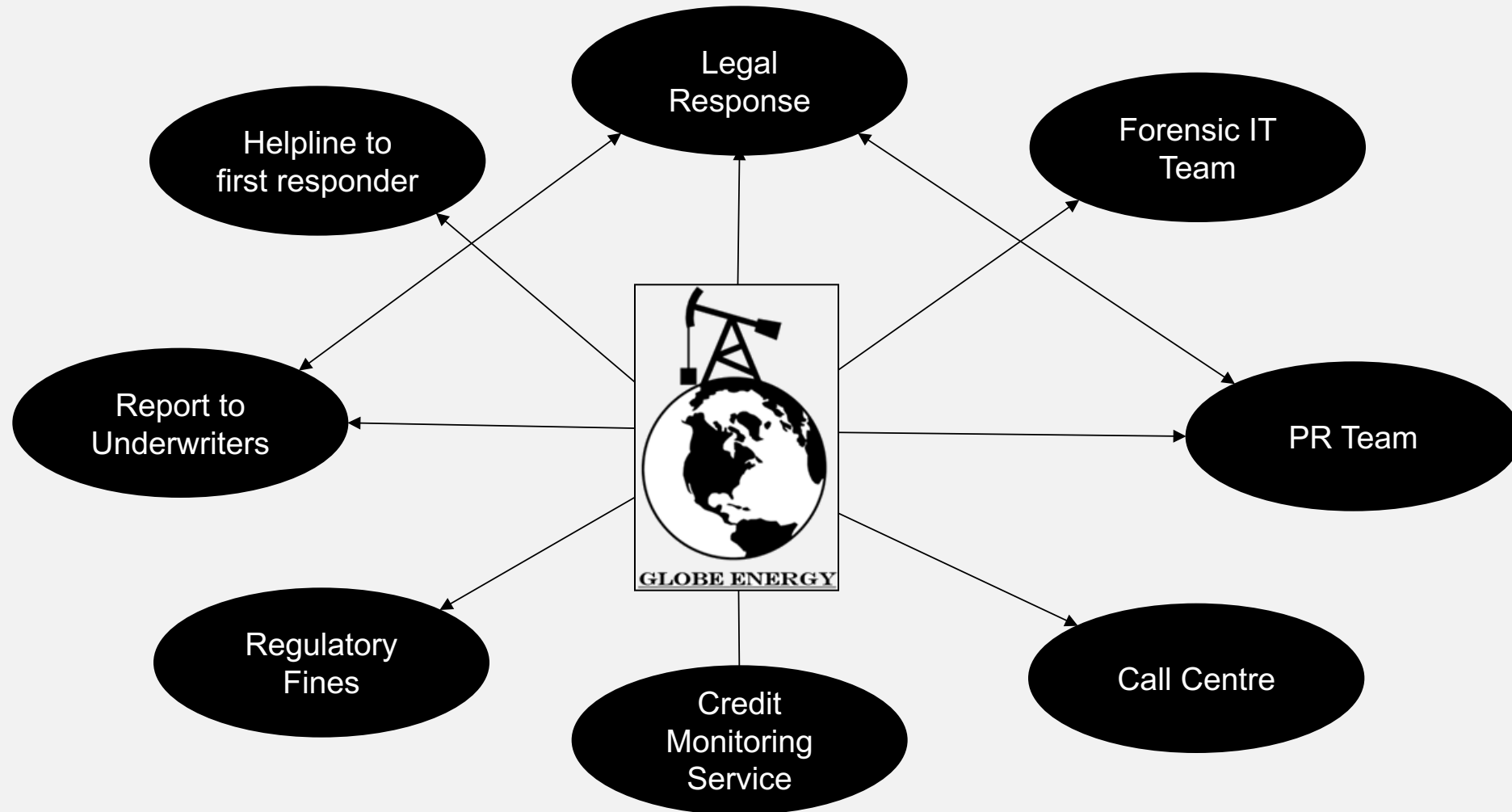
Forties Pipeline System – Source – subseaworldnews.com

Case Study – Extended Cyber Risks & Cover Available

- Worldwide Company
- Main Plays in North Sea
- Refinement and Wholesale Activities in Northern Europe
- Purchased an “Affirmative Cyber” Policy



Case Study – Extended Cyber Risks & Cover Available



To what extent do Cyber Risks differ from Traditional Risks?

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C) They're practically the same, just more expensive to manage

D) There is no difference

Any
Questions
?

Risk Solutions

Charlie Hann
Munich Re Syndicate 457

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Confidentiality Agreements in Claims Handling

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Introduction

- The importance of confidentiality in insurance claims
- English law protects information which is:
 - Confidential in nature
 - Disclosed in circumstances importing an obligation of confidence
- Parties can also enter express confidentiality agreements

Question 1: Have you worked on a claim where a confidentiality agreement was entered into?

- Yes
- No

Question 2: Think about the most recent confidentiality agreement you signed up to. On a scale of 1-3 how difficult was it to negotiate?

- 1 – easy, I signed up to the first draft
- 2 – moderate, we only needed a few adjustments
- 3 – difficult, it took a long time and many drafts to reach agreement
- Not applicable – I've never entered a confidentiality agreement

Question 3: Did you get legal advice on the confidentiality agreement?

- Yes, in-house counsel
- Yes, external counsel
- Yes, in-house and external counsel
- No
- Not applicable – I've never entered a confidentiality agreement

Confidentiality agreements – key questions



1. Who is giving the information?

2. Who is receiving the information?

3. What “confidential information” is being shared?

4. What restrictions should there be on use?

Confidentiality agreements – key questions



5. When can the recipient share the information?

6. What remedies are available if there is a breach?

7. How long should the obligations last?

8. Should the information be returned / destroyed?

Practical tips

- Work through practical examples
- Think about how the agreement might work at every stage of the claim
- Ensure all the right people are aware of their obligations
- If there is a breach, act promptly
- Consider whether confidentiality agreement could be entered into at placement – new NDA endorsement

Questions?

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Interactive Groupwork

Radmil Kranda, Gard



Words of Wisdom



Donald J. Trump 
@realDonaldTrump

In life it's important to know people.
To know GREAT people!
At Lillehammer Primer Session you meet the
BEST people. TRUE!

RETWEETS
12,922

LIKES
19,660



11:15 AM - 01 Mar 2018

 752

 13K

 20K

Photo: B. Erikson/Contrasto.com

Group Work

Practical Skills

- BUILD A WIND MILL (in 30min)



Group Work

Practical Skills

- 10 groups! (aprox. 8-10 persons per group)
- 1 equipment box per group
- Score: Functionality, Complexity and Creativity



VOTE

Which is the best Wind Project

- Group 1
- Group 2
- Group 3
- Group 4
- Group 5
- Group 6
- Group 7
- Group 8
- Group 9
- Group 10



**KEEP
CALM
AND HAVE
A TEAM
LUNCH**

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