

Energy Risk Management



Panel Discussion

Energy Risk Management Panel Discussion

- James L. Bouillion, Senior Director
Enron Global Risk Markets
- James W. Ferguson, Assistant General Counsel and
Director of Risk Management
Halliburton Company
- Michael D. Phillipus, Manager - Risk Management
Pennzoil-Quaker State Company
- Steven T. Williams, Risk Manager
Nabors Industries, Inc.

Enterprise Risk Management

James L. Bouillion



Tillinghast - Towers Perrin defines the Process as:

“Enterprise Risk Management is a rigorous approach to assessing and addressing the risks from all sources that threaten the achievement of an organization’s strategic objectives. In addition, Enterprise Risk Management identifies those risks that represent corresponding opportunities to exploit for competitive advantage.”

Enterprise Risk Management Evolution:

- Multi line insurance
- Integrated Risk Management
-
- Enterprise Risk Management's

Problems with Enterprise Risk Management

- Endorsement from the top of the Corporation
- Traditionally, risks managed separately by function
- The process itself is a challenge
- Historically, there have been certain markets for certain risks.
- Markets that assume the risk must also understand the enterprise quantification process and be able to price a product.
- Cost

Enterprise Wide Approach -- Where is it Going?

Reasons it may still be alive:

- “Process” itself has value
- Rating Agencies and Stock Market Analysts
- Insurance Market “Hardening”
- Regulatory
- Board of Directors Interest
- “Enterprise” entering firm from a number of avenues
- “Convergence”

Enterprise Risk Management

Works Cited:

- Enterprise Risk Management: An Analytical Approach, A Tillinghast-Towers Perrin monograph by Jerry Miccolis and Samir Shah.
- Risk Management Magazine, Sept. 2000, Chief Risk Officer: Stepping Up, by Charles R. Lee
- Enterprise Risk Management-Impact on Shareholders Value. 2000 International Risk Management Conference, April 11, 2000 (Tillinghast-Tower Perrin)
- CFO Magazine April 1999, "Kit and Caboodle" Understanding the Skepticism About Enterprise Risk Management. By Russ Banham.

Risk Manager Function

History and Future of Risk Management

James W. Ferguson



Halliburton Company

In the beginning ...

- Mutual risk ventures
- Development of insurance
- Buying function
- Position in organization -
Owner/Business Manager

Insurance Buyer

- Standard products
- Specific risk exposures and coverages
- Price and availability issues
- Position in organization - Purchasing or Administration

Insurance Manager

- More products
- Flexibility in forms and coverage
- Ability to design specific programs
- But still limited to defined areas of risk
- Position in organization - Treasury or Purchasing

Risk Manager

- More financial integration
- Retained risks versus insurance
- Using insurance products to match specific risk exposures
- Commercial orientation
- Position in organization - Finance or Legal

Chief Risk Officer

- Wide view of risk exposure
- Packaging risks - matching coverages
- Utilization of multiple risk markets
- Position in organization - Finance, Shared Services or Executive Management

For the Future

- Consolidation of risk analysis with business activity as a single process
- Fully instilled through organization
- Coordination of business execution with risk management - automated systems
- Position in organization - Executive Management, Finance or Shared Services

What are Risk Managers expectations of brokers?

Michael D. Phillipus

PENNZOIL-QUAKER STATE
C O M P A N Y

Drivers of Satisfaction

- “Delighters”
 - Building Internal & External Partnerships
 - Trust & Reliability
 - Engaging in Two-Way Interactive Communication
 - Identifying Customer Needs and Creating Solutions

Drivers of Satisfaction

- “Must-Haves”
 - Providing Operational Efficiency & Competitively Priced Services
 - Developing and Providing Insurance Expertise

Building Internal & External Partnerships

- Negotiates and assists in dealing with carriers
- Identifies and manages conflicts of interest
- Part of team developing client solutions
- Develops long-term partnership with client
- Dealing with one, unified company

Trust & Reliability

- High ethical standards
- Provides trustworthy advice and counsel
- Consistently fulfills commitments and promises
- Provides full disclosure

Two-Way Interactive Communication

- Actively listens and understands my business
- Communicates effectively
- Meets with me to review policies, coverage, etc.
- Keeps me informed

Identifies Needs & Creates Solutions

- Accurately evaluates my exposures
- Responds to my needs
- Offers insurance and non-insurance options
- Provides innovative solutions
- Provides solutions which match my needs
- Offers effective risk management solutions

Operational Efficiency & Competitiveness

- Coverage at competitive and reasonable cost
- Coverage at lowest possible price
- Employs technology to reduce costs and improve efficiencies
- Demonstrates operational efficiency
- Conforms to industry standard data formats
- Provides value

Developing and Providing Expertise

- Expertise in risk management
- Expertise in my business and industry
- Facilitates my ability to access and manage risk information
- Provides access to supplemental company personnel to assist me

How do Risk Managers Feel?

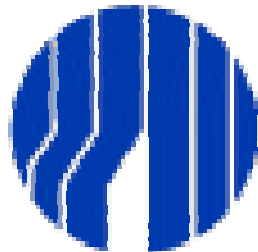
	Performance	Satisfaction	Loyalty
Brokers	74	70	74
Carriers	67	66	73
TPA's	66	62	64

Source: *The Quality Scorecard, 1999*

What are the most important Risk Management tools?

- Insurance
- Safety
- Claims
- Contract Review
- Other

Steven T. Williams



Risk Management Tools

- **Insurance Management**
- **Claims Management**
- **Safety Management**
- **Contract Review**
- **Credit Risk management**
- **Currency Exchange Risk Management**
- **Business Risk Management**
- **Other**

- **Safety Management**

- **Elements of an Effective HSE Plan**

- **Management leadership, commitment and accountability**
- **Training Program**
- **Written Work Procedures**
- **Medical, Exposure Assessment...**
- **Inspection Program**
- **Accident/Incident Investigation Procedure**

- **Contract Review**

- **Risk Allocation & Insurance**
- **Commercial Terms**

- **Development of Contract Policy to:**

- ensure that risks assumed are commensurate with commercial benefit.
- ensure that no “company breaker” risks are assumed.
- ensure that commercial terms are reasonable.
- ensure that uninsured casualty risks are capped or eliminated.
- ensure control over HSE issues.

•Contract Review

DAYWORK

- Risk Allocation & Insurance

•Indemnification

- "Knock for Knock"
- Sound location
- In-hole equipment
- Loss of hole
- Underground Damage
- Wild Well Control
- Pollution
- Costs for exceptions
- Additional Insured
- Waiver of Subrogation
- Obligation to maintain Insurance

Knock for Knock

“EXCEPT AS MAY BE OTHERWISE PROVIDED IN THIS AGREEMENT, OPERATOR AND CONTRACTOR AGREE THAT EACH PARTY SHALL, WITH RESPECT TO:

- A. ITS OWN OFFICERS, DIRECTORS, SERVANTS, AGENTS, EMPLOYEES, INVITEES AND SUBCONTRACTORS;
- B. THE PROPERTY OF ITS OWN OFFICERS, DIRECTORS, SERVANTS, AGENTS, EMPLOYEES, INVITEES AND SUBCONTRACTORS;
- C. ITS OWN PROPERTY;

BE LIABLE FOR ALL LOSSES, COSTS, DAMAGES, EXPENSES AND LEGAL FEES WHICH IT MAY SUFFER, SUSTAIN, PAY OR INCUR DIRECTLY OR INDIRECTLY ARISING FROM OR IN CONNECTION WITH THIS AGREEMENT ON ACCOUNT OF BODILY INJURY TO OR DEATH OF SUCH PERSONS, OR DAMAGE TO SUCH PERSONS, OR LOSS OF OR DAMAGE TO SUCH PROPERTY; AND, IN ADDITION, RELEASE, DEFEND AND INDEMNIFY THE OTHER PARTY AGAINST ALL ACTIONS, PROCEEDINGS, CLAIMS, DEMANDS, LOSSES, COSTS, DAMAGES, EXPENSES AND LEGAL FEES WHATSOEVER WHICH MAY BE BROUGHT AGAINST OR SUFFERED BY SUCH PARTY OR WHICH SUCH PARTY MAY SUSTAIN, PAY, OR INCUR, DIRECTLY OR INDIRECTLY ARISING FROM, OR IN CONNECTION WITH THIS AGREEMENT ON ACCOUNT OF BODILY INJURY TO OR DEATH OF SUCH PERSON, OR LOSS OF OR DAMAGE TO SUCH PROPERTY.”

NOTE: This indemnity is often expressed in two separate, reciprocal provisions. As long as complete reciprocity is achieved, that is acceptable and customary.

Sound Location

“OPERATOR SHALL PREPARE SOUND LOCATIONS CAPABLE OF PROPERLY SUPPORTING THE DRILLING RIG, AND SHALL BE RESPONSIBLE FOR A CONDUCTOR PIPE PROGRAM ADEQUATE TO PREVENT SOIL AND SUBSOIL WASHOUT. IT IS RECOGNIZED THAT OPERATOR HAS SUPERIOR KNOWLEDGE OF THE LOCATION AND ACCESS ROUTES TO THE LOCATION AND MUST ADVISE CONTRACTOR OF ANY SUBSURFACE CONDITIONS OR OBSTRUCTIONS WHICH CONTRACTOR MIGHT ENCOUNTER WHILE EN ROUTE TO THE LOCATIONS OR DURING OPERATION HEREUNDER. IN THE EVENT SUBSURFACE CONDITIONS CAUSE A CRATERING OR SHIFTING OF THE LOCATION SURFACE, AND LOSS OR DAMAGE OF THE RIG OR ITS ASSOCIATED EQUIPMENT RESULTS THEREFROM, OPERATOR SHALL, WITHOUT REGARD TO OTHER PROVISIONS OF THIS AGREEMENT, REIMBURSE CONTRACTOR FOR ALL SUCH LOSS OR DAMAGE INCLUDING PAYMENT OF STANDBY RATE WITH CREW DURING REPAIR.”

Loss of Hole

“IN THE EVENT THE HOLE SHOULD BE LOST OR DAMAGED, OPERATOR SHALL BE SOLELY RESPONSIBLE FOR SUCH DAMAGE TO OR LOSS OF THE HOLE, INCLUDING THE CASING THEREIN, AND SHALL DEFEND, INDEMNIFY AND HOLD HARMLESS CONTRACTOR FOR AND FROM ALL SUCH LOSS OR DAMAGE, REGARDLESS OF WHETHER SUCH LOSS OR DAMAGE WAS CAUSED BY THE NEGLIGENCE, GROSS NEGLIGENCE, WILLFUL MISCONDUCT OR OTHER FAULT OF CONTRACTOR, OR ITS EMPLOYEES, AGENTS OR SUBCONTRACTORS.”

Underground Damage

- “OPERATOR SHALL RELEASE CONTRACTOR OF ANY LIABILITY FOR, AND SHALL PROTECT, DEFEND AND INDEMNIFY CONTRACTOR FROM AND AGAINST ANY AND ALL CLAIMS, LIABILITY, AND EXPENSE RESULTING FROM OPERATIONS UNDER THIS AGREEMENT ON ACCOUNT OF INJURY TO, DESTRUCTION OF, OR LOSS OR IMPAIRMENT OF ANY PROPERTY RIGHT IN OR TO OIL, GAS, OR OTHER MINERAL SUBSTANCE OR WATER, IF AT THE TIME OF THE ACT OR OMISSION CAUSING SUCH INJURY, DESTRUCTION, LOSS, OR IMPAIRMENT, SAID SUBSTANCE HAD NOT BEEN REDUCED TO PHYSICAL POSSESSION ABOVE THE SURFACE OF THE EARTH, AND FOR ANY LOSS OR DAMAGE TO ANY FORMATION, STRATA, OR RESERVOIR BENEATH THE SURFACE OF THE EARTH.”

Wild Well Control

“Should a loss of well control occur, Operator shall take over operations for purposes of regaining control of the well and shall bear all costs for regaining control, including the cost of removal of any debris. During any such period of takeover, the indemnity and release obligations of Contractor in this contract shall cease to apply, and Operator shall defend, indemnify and hold harmless Contractor for all personal injuries and/or property damage and/or costs incurred in regaining control of the well, whether suffered by Contractor, Operator or any other party and regardless of the cause or causes thereof, including but not limited to the negligence, gross negligence, willful misconduct or other fault of Contractor. If and when control of the well is regained, Operator shall so notify Contractor and, upon receipt by Contractor of said notice, Contractor shall resume control of its operations and the indemnity provisions contained elsewhere in this contract shall apply to further operations.”

Pollution

“NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, IT IS UNDERSTOOD AND AGREED BY AND BETWEEN THE CONTRACTOR AND OPERATOR THAT THE RESPONSIBILITY FOR POLLUTION OR CONTAMINATION SHALL BE AS FOLLOWS:

- (A) CONTRACTOR SHALL ASSUME ALL RESPONSIBILITY FOR (INCLUDING CONTROL AND REMOVAL OF THE POLLUTANT INVOLVED) AND SHALL PROTECT, DEFEND AND SAVE OPERATOR HARMLESS FROM AND AGAINST ALL CLAIMS, DEMANDS AND CAUSES OF ACTION OF EVERY KIND AND CHARACTER ARISING FROM ALL POLLUTION OR CONTAMINATION WHICH ORIGINATES ABOVE THE SURFACE OF THE LAND FROM SPILLS OF FUELS, LUBRICANTS, MOTOR OILS, NORMAL WATER BASE DRILLING FLUID AND ATTENDANT CUTTINGS, PIPE DOPE, PAINTS, SOLVENTS, AND GARBAGE WHOLLY IN CONTRACTOR'S POSSESSION AND CONTROL AND DIRECTLY ASSOCIATED WITH CONTRACTOR'S EQUIPMENT AND FACILITIES.
- (B) OPERATOR SHALL ASSUME ALL RESPONSIBILITY FOR (INCLUDING CONTROL AND REMOVAL OF THE POLLUTANT INVOLVED) AND SHALL PROTECT, DEFEND AND SAVE THE CONTRACTOR HARMLESS FROM AND AGAINST ALL CLAIMS, DEMANDS, AND CAUSES OF ACTION OF EVERY KIND AND CHARACTER ARISING FROM ALL POLLUTION OR CONTAMINATION, OTHER THAN THAT DESCRIBED IN SUBSECTION (A) ABOVE, WHICH MAY OCCUR DURING THE TERM OF THIS AGREEMENT OR AS A RESULT OF OPERATIONS HEREUNDER, INCLUDING BUT NOT LIMITED TO, THAT WHICH MAY RESULT FROM FIRE, BLOWOUT, CRATERING, SEEPAGE OR ANY OTHER UNCONTROLLED FLOW OF OIL, GAS, WATER OR OTHER SUBSTANCE, AS WELL AS THE USE OR DISPOSITION OF OIL EMULSION, OIL BASE DRILLING FLUIDS, CONTAMINATED CUTTINGS OR CARVINGS, LOST CIRCULATION AND FISH RECOVERY MATERIALS AND FLUIDS.
- (C) IN THE EVENT A THIRD PARTY COMMITS AN ACT OR OMISSION WHICH RESULTS IN POLLUTION OR CONTAMINATION FOR WHICH EITHER THE CONTRACTOR OR OPERATOR, FOR WHOM SUCH PARTY IS PERFORMING WORK, IS HELD TO BE LEGALLY LIABLE, THE RESPONSIBILITY THEREFOR SHALL BE CONSIDERED, AS BETWEEN THE CONTRACTOR AND OPERATOR, TO BE THE SAME AS IF THE PARTY FOR WHOM THE WORK WAS PERFORMED HAS PERFORMED THE SAME AND ALL OF THE OBLIGATIONS RESPECTING DEFENSE, INDEMNITY, HOLDING HARMLESS AND LIMITATION OF RESPONSIBILITY AND LIABILITY, AS SET FORTH IN (A) AND (B) ABOVE, SHALL BE SPECIFICALLY APPLIED.”

Cost for Exceptions

- Costs for exceptions to standard risk allocation language covering the costs of additional insurance need to be factored into Contractors costs, and passed on to the Operator.

Additional Insured

“Contractor and Operator shall cause each of their respective underwriters to waive all rights of subrogation, but not any right to a lien or credit against the proceeds of settlement or judgment, against the other but only to the extent of the mutual indemnification obligations assumed herein.”

Waiver of Subrogation

“Contractor and Operator shall cause each of their respective underwriters to waive all rights to a lien or credit against the proceeds of settlement or judgment, against the other but only to the extent of the mutual indemnification obligations assumed herein.”

Obligation to Maintain Insurance

“During the life of this Contract, Contractor shall at Contractor’s expense maintain, with an insurance company or companies authorized to do business in the state where the work is to be performed or through a self-insurance program, insurance coverages of the kind and in the amounts set forth as seen below, insuring the liabilities specifically assumed by Contractor in Paragraph ___ of this Contract. Contractor shall, if requested to do so by Operator, procure from its insurers certificate or certificates that said insurance is in full force and effect and that the same shall not be canceled or materially changed without ten (10) days prior written notice to Operator. For liabilities assumed hereunder by Contractor, its insurance shall be endorsed to provide that the underwriters waive their right of subrogation against Operator. Operator will, as well, cause its insurer to waive subrogation against Contractor for liability it assumes and shall maintain, at Operator’s expense, or shall self insure, insurance coverage of the same kind and in the same amount as is required of Contractor, insuring the liabilities specifically assumed by Operator in Paragraph __ of this contract.

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