

# Floating Unit Decommissioning

## Emerging Australian Risk Transfer Considerations

As the oil & gas sector in Australia faces emerging offshore decommissioning exposures, this article addresses certain risk transfer considerations specific to insurance coverage for the removal of FPSO's and the like and may be of interest to the owners of such units.



### Introduction

News of the forthcoming decommissioning of a Floating Production, Storage & Offloading vessel ("FPSO") offshore Australia has prompted an oil & gas services contractor to comment that the project *"heralds the start of an era of decommissioning in the nation's offshore oil & gas sector"*.

When seeking insurance coverage for the removal of FPSO's and the like, the party in the role of the owner of the unit needs to pay particularly careful attention to certain potential exposures specific to such projects. This article provides examples of such potential exposures.

### Tow Navigation

The contract between the FPSO owner and the towage contractor may adopt an *"each for their own"* negligence-based approach to the responsibility for liability to Third Parties during the removal exercise. Such an approach would ordinarily favour the owner of the FPSO.

However, instances have arisen in Europe when the owner of the floating unit being decommissioned has provided the crew member responsible for navigation on board the towing vessel. In such instances, the benefit the owner of the floating unit derives from the *"each for their own"* Third Party liability provisions will be diminished significantly.

Accordingly, the owner of the floating unit will need to liaise

closely with their advisers and insurance broker in order to ensure any such material circumstances are appropriately disclosed to their insurers.

### Towage Risks & Loss of Use

The removal contract entered into by the owner of the floating unit will require particularly careful consideration when such an owner is arranging insurance coverage, especially in respect of any exposures to the towing contractor.

For example, a particularly onerous towage contract may seek to pass responsibility for damage to the towing vessel on to the owner of the unit being towed, including loss of use. In such a case, the owner of the floating unit should pay particularly careful attention to the provisions of

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their proposed insurance contract. Such insurance policies may contain an express exclusion in respect of loss of use exposures arising out of towage contracts. Accordingly, if forced to accept a particularly onerous towage contract, the owner of the floating unit may need to negotiate specific coverage with their insurers.

### **Subsea Contractual Exposures**

Based upon experience gained during the decommissioning of floating units in Europe, instances can arise whereby the owner of the unit is faced with particularly onerous contractual liability exposures, including loss of use responsibilities, in the event of an incident during subsea disconnect activity.

Instances have arisen during Floating Production Unit ("FPU") decommissioning activity whereby the owner of the unit has been faced with onerous contractual responsibilities to other oil & gas operators tied into the same subsea tie-in junction point. For example, the subsea tie-in structure, accessed by multiple operators, may be

damaged during the disconnect activity, thus disrupting the export activities of the other operators tied into the same structure. The owner of the FPU being faced with potentially onerous contractual responsibilities, including loss of use exposures, in the event that the other operators' pipeline infrastructure is undamaged but is unable to function due to damage to the tie-in junction structure.

Any such potential exposures would require the owner of the floating unit to liaise closely with their advisers and insurance broker in order to ensure appropriate disclosures were made to their underwriters and that their policy wording afforded the required coverage.

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