Control of Well Insurance

The Complete Guide for Drilling Operators

Understanding Coverage, Costs, and Critical Risk Management for Oil & Gas Drilling Operations

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Executive Summary

Control of Well insurance represents one of the most critical and specialized coverages in the oil and gas industry. When a drilling operation loses control of a well—whether through a blowout, fire, explosion, or uncontrolled flow—the financial consequences can be catastrophic. Control of Well insurance protects drilling contractors, well operators, and energy companies from the extraordinary costs associated with regaining control of a well and cleaning up resulting damage.

This comprehensive guide examines every aspect of Control of Well insurance, from basic coverage principles to complex underwriting requirements. Whether you are a drilling contractor working in the Permian Basin, an independent operator exploring in North Dakota's Bakken formation, or a well servicing company operating across multiple states, understanding Control of Well insurance is essential to protecting your business from potentially company-ending losses.

Key topics covered in this white paper include: the definition and scope of Control of Well coverage, the types of well control events that trigger coverage, detailed explanations of covered and excluded perils, cost factors that impact premiums, underwriting requirements, real-world claims scenarios, and practical guidance on purchasing appropriate coverage for your operations.

What is Control of Well Insurance?

Control of Well insurance, sometimes referred to as Operator's Extra Expense (OEE) or Blowout and Cratering coverage, is a highly specialized form of property insurance designed specifically for oil and gas drilling operations. Unlike standard commercial insurance policies that exclude most petroleum-related risks, Control of Well insurance specifically addresses the unique exposures faced by drilling contractors, well operators, and energy service companies.

The Fundamental Coverage Concept

At its core, Control of Well insurance provides financial protection when a drilling operation loses control of subsurface pressures, resulting in an uncontrolled release of oil, gas, water, or other formation fluids. This coverage responds to extraordinary expenses incurred to regain control of the well, remediate environmental damage, and restore operations to normal conditions.

The policy covers specialized costs that go far beyond what standard general liability or property insurance would address. These include expenses for bringing in well control specialists, the costs of relief well drilling operations, fire suppression and extinguishment activities, environmental cleanup of contaminated soil and groundwater, crater restoration, and the re-drilling of destroyed wells.

Historical Context and Industry Evolution

The Control of Well insurance market evolved from the hard lessons learned through decades of catastrophic well control incidents. From the historic blowouts of the early petroleum industry to modern deepwater drilling disasters, each major incident has shaped policy language, coverage terms, and underwriting standards. The 1979 Ixtoc I blowout in the Gulf of Mexico, the 1988 Piper Alpha platform disaster, and the 2010 Deepwater Horizon tragedy all fundamentally changed how insurers approach well control risk.

Today's Control of Well policies reflect sophisticated risk assessment methodologies, advanced actuarial modeling, and detailed technical underwriting. Modern policies incorporate lessons learned from thousands of well control incidents, providing comprehensive protection while maintaining clear exclusions for uninsurable risks.

Policy Structure and Components

A typical Control of Well insurance policy consists of several integrated components working together to provide comprehensive protection:

- **Well Control Coverage** – The primary coverage section addressing costs to stop uncontrolled flow, extinguish fires, and regain control of the well through direct intervention or relief well drilling
- **Seepage and Pollution Coverage** – Protection against cleanup costs for contamination of soil, groundwater, and surface water resulting from a well control event

• **Redrill Expense** – Coverage for the cost of re-drilling a well destroyed during a well control incident

• **Care, Custody, and Control** – Limited coverage for damage to equipment and property under the insured's responsibility at the time of loss

• **Additional Interests** – Extensions of coverage to protect the interests of drilling rig owners, working interest partners, and other named parties

Why Control of Well Coverage is Essential

The Financial Magnitude of Well Control Events

Well control incidents represent some of the costliest events in the entire insurance industry. A single blowout can easily generate expenses ranging from several million dollars for a relatively minor onshore incident to hundreds of millions or even billions of dollars for major offshore disasters. The Deepwater Horizon incident resulted in cleanup costs exceeding $65 billion, while even modest onshore blowouts routinely cost $5-20 million to bring under control.

Without proper Control of Well insurance, a drilling contractor or operator facing a blowout confronts potential bankruptcy. The specialized equipment, expert personnel, and extended timeframes required to regain control of a well quickly deplete even substantial financial reserves. Companies without adequate coverage often face impossible choices between abandoning control efforts or risking complete financial ruin.

Contractual Requirements and Industry Standards

Most oil and gas contracts explicitly require drilling contractors to maintain Control of Well insurance with limits specified in the agreement. Operating agreements, joint venture contracts, and drilling contracts typically mandate minimum coverage levels ranging from $5 million for shallow, low-risk wells to $100 million or more for complex deepwater operations. Failure to maintain required coverage constitutes a material breach of contract and can result in contract termination, liability for damages, and exclusion from future work opportunities.

Beyond contractual obligations, industry practice and regulatory frameworks effectively require Control of Well insurance for any serious drilling operation. State oil and gas regulatory agencies, federal agencies like the Bureau of Safety and Environmental Enforcement (BSEE), and financial institutions providing project financing all expect operators to carry appropriate coverage. Operating without Control of Well insurance signals unacceptable risk management practices and undermines business credibility.

Protecting Company Assets and Long-Term Viability

A well control event without adequate insurance coverage can instantly transform a profitable drilling company into a bankrupt shell. The financial exposure extends far beyond immediate control and cleanup costs. Companies face potential liability to working interest partners for lost production, claims from neighboring property owners for contamination damage, regulatory fines and penalties, and litigation costs that can continue for years after the physical incident concludes.

Control of Well insurance protects not just against catastrophic losses but also preserves company reputation, maintains banking relationships, and ensures business continuity. Companies with strong insurance programs demonstrate professional risk management, attract better partners and

investors, and position themselves for long-term success in a volatile industry.

Understanding Well Control Events

Types of Well Control Incidents

Well control events occur when formation pressures exceed the ability of drilling mud weight, wellbore integrity, or surface equipment to contain subsurface fluids. These incidents range from minor influxes that are quickly controlled to catastrophic blowouts resulting in fires, explosions, and massive environmental damage. Understanding the spectrum of well control events is essential for appreciating the value of proper insurance coverage.

Kicks and Influxes

A kick occurs when formation fluids enter the wellbore in an unplanned manner, typically because drilling mud weight is insufficient to maintain overbalance against formation pressure. Most kicks are successfully detected and controlled through standard well control procedures without triggering insurance coverage. However, kicks that escalate into uncontrolled situations where standard procedures fail represent the beginning stages of what may become a full blowout requiring specialized intervention.

Surface Blowouts

Surface blowouts involve uncontrolled flow of formation fluids through the wellhead or surface equipment. These incidents occur when blowout preventers fail to function, wellhead equipment ruptures, or formation pressures exceed the capacity of surface control systems. Surface blowouts can result in fires if hydrocarbons ignite, cratering if high-pressure flow erodes the earth around the wellhead, and significant pollution from released fluids.

Underground Blowouts

Underground blowouts, sometimes called broaching, occur when wellbore integrity fails below the surface, allowing formation fluids to flow into other formations, up outside the casing strings, or to the surface at locations away from the wellhead. These incidents are often more challenging to control than surface blowouts because the point of uncontrolled flow may be thousands of feet underground, requiring relief well drilling operations to intersect and kill the problem well.

Well Fires and Explosions

When hydrocarbon fluids flowing from an uncontrolled well ignite, the resulting fire creates extreme hazards and dramatically complicates control operations. Well fires can generate temperatures exceeding 2,000 degrees Fahrenheit, melt steel equipment, and create thermal radiation that prevents close approach. Specialized firefighting teams like those made famous by Red Adair and Boots & Coots must be brought in to extinguish the fire before well control operations can proceed, adding millions of dollars to control costs.

Cratering

Cratering occurs when high-pressure flow from an uncontrolled well erodes soil and rock around the wellhead, creating a large depression or crater. This erosion can undermine wellhead support, damage nearby equipment and facilities, and complicate well control efforts by allowing fluids to escape through multiple pathways. Severe cratering may require extensive excavation and foundation work before control operations can succeed.

The Well Control Event Timeline

Understanding how well control events progress over time helps illustrate why insurance coverage is structured as it is and why costs can escalate so dramatically. A typical major well control incident unfolds through several distinct phases:

- **Initial Event (Hours 0-24)** – The triggering event occurs, standard well control procedures are attempted, emergency response is activated, and the decision is made whether specialized assistance is required
- **Assessment and Planning (Days 1-7)** – Well control specialists assess the situation, develop intervention strategies, mobilize equipment and personnel, and establish safety protocols
- **Direct Intervention Attempts (Weeks 1-8)** – Efforts to control the well through direct wellhead intervention, including pumping operations, capping attempts, and equipment modifications
- **Relief Well Operations (Months 1-6)** – If direct intervention fails, drilling of one or more relief wells to intersect the problem wellbore and enable kill operations
- **Environmental Remediation (Months 3-24+)** – Cleanup of contaminated soil and water, restoration of damaged property, and ongoing environmental monitoring

What Control of Well Insurance Covers

Control of Well insurance policies provide comprehensive protection against the extraordinary costs associated with regaining control of an out-of-control well. The coverage is specifically designed to address expenses that would not be covered under standard commercial insurance policies. Understanding exactly what is covered helps drilling contractors and operators ensure they have adequate protection.

Well Control and Firefighting Expenses

The core coverage of any Control of Well policy addresses the direct costs of regaining control of an uncontrolled well. This includes:

- **Well Control Specialists** – Fees for specialized well control companies like Wild Well Control, Boots & Coots, Cudd Well Control, and other industry experts who provide the technical expertise and specialized equipment necessary to regain well control
- **Firefighting Services** – Costs for specialized well fire suppression teams, including mobilization, daily fees, equipment, and specialized firefighting materials such as dynamite, water monitors, and fire-resistant barriers
- **Pumping Operations** – Expenses for high-pressure pumps, kill fluids, cement, and other materials required to establish circulation and kill the well through bullheading, circulation, or other direct intervention techniques
- **Equipment and Materials** – Rental costs for specialized equipment such as coiled tubing units, snubbing units, blowout preventers, capping stacks, and other tools specifically required for well control operations
- **Personnel Costs** – Wages, per diem, and travel expenses for additional personnel brought in specifically for the well control operation, including specialized crews, consultants, and support staff

Relief Well Drilling Expenses

When direct intervention at the wellhead is unsuccessful or impossible, drilling one or more relief wells may be the only way to regain control. Relief well drilling is an extremely expensive operation, sometimes costing $15-50 million per relief well. Control of Well insurance covers:

- **Relief Well Drilling Costs** – Complete drilling expenses for relief wells including rig day rates, drilling fluids, casing, cement, directional drilling services, and all associated costs
- **Specialized Directional Drilling** – Additional costs for precise directional drilling required to intersect the problem wellbore, including advanced logging tools, measurement-while-drilling systems, and expert directional drillers

• **Kill Operations** – Expenses for pumping kill fluids and cement through the relief well to establish communication with and kill the problem well

Seepage and Pollution Cleanup Expenses

Well control events almost always result in environmental contamination requiring extensive cleanup efforts. Control of Well insurance includes seepage and pollution coverage addressing:

• **Soil Remediation** – Excavation, treatment, and disposal of contaminated soil, including testing, transportation to approved disposal facilities, and restoration of disturbed areas

• **Groundwater Cleanup** – Installation of monitoring wells, extraction and treatment systems, and ongoing monitoring to address contaminated groundwater resulting from the incident

• **Surface Water Remediation** – Cleanup of contaminated ponds, streams, rivers, or other surface water bodies affected by released fluids, including containment measures, treatment systems, and ecological restoration

• **Vegetation and Habitat Restoration** – Removal of dead vegetation, replanting, and habitat restoration to repair environmental damage caused by spilled fluids or well control operations

Redrill Expenses

If a well is destroyed during a well control incident, the policy may cover the cost of re-drilling the well to the same depth and characteristics as the original well. This coverage typically includes:

• **Drilling to Original Depth** – Complete costs to drill a replacement well to the same formation depth as the destroyed well

• **Completion Costs** – Expenses to case, cement, perforate, and complete the replacement well

• **Location Preparation** – Site work and location preparation for the replacement well, which may be offset from the original location if cratering or other damage makes the original site unsuitable

Care, Custody, and Control Coverage

Unlike standard commercial general liability policies that exclude damage to property under the insured's care, custody, or control, Control of Well policies provide limited coverage for:

• **Drilling Rig Damage** – Physical damage to drilling rigs resulting from the well control incident, subject to policy sublimits

• **Associated Equipment** – Damage to equipment on location that is destroyed or damaged during the incident

• **Contractual Liability** – Legal liability assumed under drilling contracts for damage to the operator's or drilling rig owner's property

Additional Covered Expenses

Beyond the primary coverage elements, Control of Well insurance also addresses various additional expenses that arise during major incidents:

- **Increased Cost of Working** – Extra expenses for accelerated operations, overtime, expedited equipment delivery, and other measures taken to minimize the duration of the incident
- **Technical Consultants** – Fees for petroleum engineers, geologists, and other technical experts brought in to advise on well control strategy
- **Legal and Regulatory Compliance** – Reasonable costs for legal counsel and regulatory compliance activities directly related to the well control incident
- **Third-Party Property Damage** – Damage to neighboring properties resulting from pollution or cratering, subject to policy terms and conditions

What is NOT Covered

Understanding policy exclusions is just as important as understanding coverage. Control of Well insurance policies contain numerous exclusions designed to limit coverage to true fortuitous losses while excluding predictable costs, intentional acts, and certain catastrophic scenarios. Drilling contractors and operators must understand these exclusions to avoid gaps in coverage.

Standard Policy Exclusions

War, Terrorism, and Political Risk

Virtually all Control of Well policies exclude losses arising from war, civil war, revolution, insurrection, civil commotion, terrorism, sabotage, and malicious damage. These exclusions reflect the fact that such events are uninsurable through standard commercial markets and require specialized political risk insurance if coverage is desired.

Nuclear Events

Losses resulting from nuclear reaction, nuclear radiation, or radioactive contamination are universally excluded from Control of Well policies. This exclusion applies regardless of how the nuclear event is caused or whether it is accidental or intentional.

Intentional Acts and Gross Negligence

Policies exclude coverage for losses resulting from intentional acts by the insured, fraud, criminal acts, or in some cases, gross negligence. While ordinary negligence that leads to a well control incident is covered, insurers will not pay for losses that result from deliberately cutting corners, ignoring obvious hazards, or intentional misconduct.

Regulatory Fines and Penalties

Fines, penalties, and punitive damages imposed by regulatory agencies or courts are not covered under Control of Well policies. This exclusion reflects public policy considerations that insurance should not shield parties from the consequences of regulatory violations. Compensatory damages to third parties may be covered, but not sanctions imposed by government authorities.

Operational Exclusions

Normal Operating Costs

Control of Well insurance does not cover routine drilling costs, normal mud expenses, standard equipment maintenance, or regular operating expenses. The policy only responds to extraordinary costs that exceed normal operations and are directly attributable to the well control incident. Insurers carefully distinguish between expenses that would have been incurred anyway and true additional

costs.

Dry Hole Costs

If the well being drilled proves to be non-productive or if exploration objectives are not met, these dry hole costs are not covered. The policy protects against well control incidents, not against the risk of unsuccessful exploration or development.

Loss of Production

Control of Well policies do not cover loss of production revenue, lost profits, or business interruption resulting from the incident. These consequential losses may be insurable under separate Operator's Extra Expense policies or business interruption coverage, but are not included in standard Control of Well insurance.

Property Damage Exclusions

Pre-Existing Damage

Damage to the well, drilling equipment, or location that existed prior to the well control incident is not covered. This exclusion prevents insureds from attempting to use a well control incident as an opportunity to claim for unrelated pre-existing damage.

Wear and Tear

Normal wear and tear, gradual deterioration, corrosion, erosion, and mechanical breakdown are not covered under Control of Well policies. The policy responds to sudden and accidental events, not to predictable equipment degradation over time.

Consequential Damage

Indirect or consequential damages such as loss of market share, damage to business reputation, loss of future contracts, or diminution in property values are generally excluded. The policy focuses on direct, quantifiable costs associated with regaining well control and cleaning up resulting pollution.

Environmental and Regulatory Exclusions

Pre-Existing Contamination

The seepage and pollution section of Control of Well policies does not cover cleanup of contamination that existed before the incident or that results from gradual releases unrelated to the specific well control event. Only pollution directly and immediately caused by the well control incident is covered.

Long-Term Environmental Monitoring

While the policy covers initial cleanup and remediation, extended environmental monitoring that continues for years after the incident may not be fully covered. Policy limits and time limitations affect the extent of coverage for long-term monitoring requirements.

Third-Party Claims

Bodily injury claims, wrongful death claims, and certain types of third-party property damage may be excluded from Control of Well coverage. These exposures are typically addressed through general liability, excess liability, and pollution liability policies rather than Control of Well insurance.

Who Needs Control of Well Insurance?

Control of Well insurance is not optional for most drilling operations—it is an essential risk management tool and often a contractual requirement. Understanding whether your specific operations require this coverage helps ensure compliance with contracts, regulations, and sound business practices.

Drilling Contractors

Any company operating drilling rigs—whether land rigs, offshore platforms, or specialized drilling equipment—should maintain Control of Well insurance. Drilling contractors face the highest exposure to well control incidents because they directly manage drilling operations where kicks, blowouts, and other incidents are most likely to occur.

Most drilling contracts explicitly require contractors to maintain Control of Well coverage with limits appropriate to the well's depth, location, and risk profile. Operators hiring drilling contractors typically require proof of coverage before authorizing spud of the well. Operating without required coverage constitutes breach of contract and exposes the contractor to unlimited personal liability for well control costs.

Well Operators and Working Interest Owners

Companies that operate wells—even if they do not physically drill them—need Control of Well insurance to protect their interests in the event of a well control incident. As the party ultimately responsible for well operations, operators face potential liability if contractors' insurance proves insufficient or if operator negligence contributes to the incident.

Working interest owners who are not the designated operator but have financial interests in wells should ensure that either the operator carries adequate coverage that extends to protect working interest owners or maintain their own Control of Well policies as additional insureds or named insureds.

Well Servicing and Workover Companies

Companies performing well servicing, workover operations, coiled tubing operations, snubbing operations, or other interventions on existing wells should maintain Control of Well insurance appropriate to their operations. While the risk profile differs somewhat from drilling new wells, well intervention operations can still result in loss of well control requiring expensive remediation.

Workover contracts typically require service companies to maintain Control of Well coverage, and many operators will not permit work to proceed without proof of adequate insurance. Coverage limits for workover operations may be lower than for drilling operations, but the need for coverage remains essential.

Hydraulic Fracturing Companies

Fracking companies performing hydraulic fracturing stimulation operations face specialized risks that may trigger Control of Well coverage. While the primary exposures differ from traditional drilling operations, events such as casing failures during pumping, unintended fracture communication with other wells, or loss of well control during flowback operations can create scenarios where Control of Well coverage applies.

Most fracking contracts require service companies to maintain Control of Well or Operator's Extra Expense coverage as part of their overall insurance program. The coverage protects both the service company and the operator against the extraordinary costs of well control incidents during or following stimulation operations.

Specialized Situations Requiring Coverage

Plug and Abandonment Operations

Companies performing plug and abandonment operations on wells should maintain Control of Well coverage because interventions on old, depleted, or suspended wells can sometimes result in unexpected well control situations. Wells with unknown downhole conditions, uncertain formation pressures, or degraded wellbore integrity present risks that justify Control of Well protection.

Sidetrack and Re-Entry Operations

Sidetracking existing wellbores or re-entering abandoned wells creates unique risks that require Control of Well insurance. These operations often involve uncertain downhole conditions, potentially corroded casing, and formations with unknown pressure regimes, all of which increase the likelihood of well control incidents.

Geothermal and Carbon Sequestration Drilling

Companies drilling geothermal wells or wells for carbon dioxide sequestration face risks analogous to oil and gas drilling and should maintain Control of Well insurance adapted to their specific operations. While the fluids and formations differ, the potential for loss of well control and the need for specialized intervention remain essentially the same.

Coverage Limits and Costs

Determining appropriate coverage limits and understanding the costs of Control of Well insurance are critical components of effective risk management. Limits that are too low leave companies exposed to catastrophic losses, while excessively high limits waste premium dollars on unnecessary coverage. This section examines how to determine appropriate limits and the factors that drive premium costs.

Determining Appropriate Coverage Limits

Coverage limits for Control of Well insurance should reflect the maximum reasonably possible loss that could result from a well control incident on the specific wells being insured. Several factors influence the determination of appropriate limits:

Well Depth and Target Formation

Deeper wells targeting high-pressure formations require higher coverage limits because both the likelihood of a severe incident and the potential costs of intervention increase with depth. A shallow 3,000-foot well might warrant $5-10 million in coverage, while a 15,000-foot well in a high-pressure formation might require $25-50 million or more.

Geographic Location and Well Density

Wells located in urban or suburban areas where an incident could affect populated neighborhoods, contaminate municipal water supplies, or damage extensive infrastructure require higher limits than wells in remote areas. Similarly, wells in areas with high well density where an underground blowout might affect multiple offset wells need increased coverage.

Contractual Requirements

Drilling contracts, operating agreements, and joint venture arrangements typically specify minimum Control of Well coverage limits. These contractual requirements often drive coverage limit decisions, with many contracts requiring limits ranging from $10 million to $100 million depending on well characteristics and operator requirements.

Historical Industry Incidents

Examining the costs of historical well control incidents provides perspective on appropriate coverage limits. Onshore blowouts in conventional formations typically cost $2-15 million to control, while incidents in complex formations or involving multiple relief wells can exceed $50-100 million. Offshore incidents have resulted in costs exceeding $1 billion in extreme cases.

Typical Coverage Limits by Operation Type

While every well presents unique risks, industry practice has established general guidelines for appropriate Control of Well coverage limits based on operation types:

- **Shallow Onshore Wells (0-5,000 feet)** – Typical limits: $5-15 million
- **Intermediate Depth Wells (5,000-10,000 feet)** – Typical limits: $15-30 million
- **Deep Onshore Wells (10,000-20,000 feet)** – Typical limits: $25-75 million
- **Ultra-Deep or High-Pressure Wells (>20,000 feet)** – Typical limits: $50-150 million
- **Offshore Shelf Operations** – Typical limits: $25-100 million
- **Deepwater and Ultra-Deepwater** – Typical limits: $100 million to $1 billion+

Premium Costs and Rating Factors

Control of Well insurance premiums vary dramatically based on numerous risk factors. Understanding these rating variables helps companies manage costs while maintaining adequate coverage.

Primary Rating Factors

- **Well Depth** – Deeper wells cost more to insure due to increased complexity and higher potential losses
- **Formation Pressures** – High-pressure or overpressured formations command significantly higher premiums
- **Geographic Location** – Wells in challenging environments, near populated areas, or in regions with limited infrastructure cost more
- **Operator/Contractor Experience** – Companies with extensive experience, strong safety records, and proven well control procedures receive better rates
- **Well Design and Equipment** – Modern rigs with sophisticated well control equipment, properly designed mud programs, and comprehensive safety systems receive premium credits
- **Loss History** – Prior well control incidents, especially if resulting from negligence or poor procedures, significantly increase premiums
- **Coverage Limits Selected** – Higher limits result in higher premiums, though the relationship is not strictly linear
- **Deductible Levels** – Higher deductibles reduce premiums, with typical deductibles ranging from $100,000 to $1 million or more

Typical Premium Ranges

Control of Well insurance premiums typically represent 1-5% of total well costs for routine operations, but can exceed 10% for high-risk wells. As rough guidelines, premiums might range from:

- **Low-risk shallow wells** – $15,000-50,000 per well
- **Standard intermediate depth wells** – $50,000-150,000 per well
- **Deep or complex onshore wells** – $150,000-500,000 per well
- **High-risk or ultra-deep wells** – $500,000-2,000,000+ per well
- **Annual programs** – $200,000-5,000,000+ depending on drilling activity and risk profile

Managing Premium Costs

While Control of Well insurance represents a significant expense, companies can manage costs through several strategies:

- **Risk Management Programs** – Implementing comprehensive safety and well control programs, conducting regular training, and maintaining detailed procedures can earn premium discounts of 10-25%
- **Deductible Strategies** – Accepting higher deductibles in exchange for lower premiums makes sense for companies with strong balance sheets and the ability to absorb smaller losses
- **Annual vs. Per-Well Policies** – Companies drilling multiple wells may achieve better rates through annual programs rather than individual well policies
- **Equipment and Technology Investments** – Modern rigs with advanced well control equipment, automated systems, and enhanced safety features may qualify for reduced rates
- **Expert Broker Relationships** – Working with specialized energy insurance brokers who understand the market and can effectively present risks to underwriters often results in more competitive terms

Underwriting Requirements

Obtaining Control of Well insurance requires providing detailed information to underwriters who must assess the risks associated with your drilling operations. Understanding underwriting requirements and preparing comprehensive submission materials significantly improves the likelihood of obtaining favorable coverage terms and competitive premiums.

Standard Underwriting Information

Control of Well underwriters require extensive information about proposed drilling operations, company capabilities, and historical performance. Well-prepared submissions that proactively address underwriter concerns lead to faster quotes and better terms.

Well-Specific Information

For each well or drilling program, underwriters typically require:

- **Well Location** – Precise location coordinates, surface and mineral ownership, proximity to populated areas, and environmental sensitivity
- **Depth and Target Formation** – Planned total depth, target formations, known formation characteristics, and expected pressures
- **Well Design** – Casing program, cement program, mud weight program, anticipated drilling fluid properties, and wellhead equipment specifications
- **Geological and Geophysical Data** – Available seismic data, offset well information, known hazards such as shallow gas or overpressured zones
- **Estimated Well Cost** – Total anticipated well costs including drilling, completion, and testing to help underwriters assess exposure

Company Information

Underwriters assess the drilling contractor or operator's capabilities, experience, and financial strength through:

- **Company Background** – Years in business, ownership structure, management experience, and organizational capabilities
- **Drilling Experience** – Number and types of wells drilled, experience in similar formations and depths, geographic experience
- **Safety Record** – Historical safety statistics, OSHA recordables, lost-time incidents, and well control incident history

- **Financial Strength** – Financial statements, credit ratings, bonding capacity, and ability to fund deductibles and uncovered losses
- **Insurance History** – Prior Control of Well coverage, claims history, coverage limits maintained, and carrier relationships

Operational Protocols

Demonstrating robust operational procedures significantly influences underwriting decisions:

- **Well Control Procedures** – Written procedures for kick detection, well control operations, emergency response, and evacuation
- **Training Programs** – Documentation of crew training, well control school attendance, drills, and competency verification
- **Equipment Maintenance** – Blowout preventer testing records, equipment maintenance programs, and compliance with API and regulatory standards
- **Drilling Program Approvals** – Evidence of thorough engineering review, hazard analysis, and management approval of drilling plans

Enhanced Underwriting for Complex Wells

High-risk wells such as ultra-deep wells, high-pressure formations, or wells in environmentally sensitive areas require enhanced underwriting with additional scrutiny and information requirements.

Technical Reviews

Underwriters may require independent technical reviews of drilling programs for complex wells. These reviews, conducted by petroleum engineering consultants retained by insurers, assess well design adequacy, identify potential hazards, and evaluate proposed mitigation measures. Companies should anticipate these reviews for wells deeper than 15,000 feet, in known high-pressure areas, or with unusual technical challenges.

Rig Inspections

For higher-risk operations, underwriters may require physical inspection of drilling rigs by qualified surveyors. These inspections verify equipment condition, well control system functionality, crew competency, and adherence to safety standards. Inspection reports significantly influence underwriting decisions and premium rates.

Additional Insured Requirements

Drilling contracts typically require that operators, working interest owners, or landowners be added as additional insureds under the drilling contractor's Control of Well policy. Underwriters need to understand all parties requiring coverage to properly structure policies and assess exposure.

Application Process Timeline

Companies should understand typical timelines for obtaining Control of Well coverage to avoid delays in drilling operations:

- **Routine Wells** – 5-10 business days from submission to quote for standard operations with established carrier relationships
- **Complex Wells** – 15-30 days for wells requiring technical review or extensive underwriting analysis
- **New Insureds** – 20-45 days for first-time insureds while underwriters complete detailed company evaluations
- **High-Risk Operations** – 30-60 days or more for ultra-high-risk operations requiring multiple underwriter reviews and reinsurance placement

Companies should begin the insurance procurement process well in advance of planned drilling operations to ensure coverage is in place before spud date.

Real-World Claims Scenarios

Examining real-world Control of Well insurance claims provides valuable context for understanding how coverage responds in actual incidents. While specific company and well names are omitted to protect confidentiality, these scenarios represent composite cases drawn from actual industry incidents.

Scenario 1: Shallow Gas Blowout - Texas Gulf Coast

A drilling contractor was drilling a 6,500-foot development well in South Texas when the bit penetrated an unexpected shallow gas sand at 4,800 feet. The crew detected gas-cut mud returns and attempted to circulate out the kick using standard procedures. However, formation gas rapidly migrated to surface, and pressure overcame the blowout preventer's ability to maintain control. Gas began flowing uncontrolled from the well, and despite efforts to close preventers, flow continued around the closed rams.

The contractor immediately evacuated personnel and called in a well control specialist. The specialist team arrived within 18 hours and began assessment. Over the next 12 days, the team made three unsuccessful attempts to cap the well and pump kill fluids. With direct intervention proving unsuccessful, the decision was made to drill a relief well.

A relief well was spudded 200 feet from the original location and drilling commenced. Precise directional drilling intersected the original wellbore 150 feet below the perforated interval after 23 days of drilling. Heavy mud and cement were pumped through the relief well, successfully killing the blowout.

Meanwhile, released gas had contaminated approximately 15 acres of pastureland and killed vegetation. Soil remediation required excavation of contaminated soil to a depth of 8 feet over 3 acres, with transportation to an approved disposal facility.

Total Costs Covered by Control of Well Insurance:

- Well control specialist fees: $385,000
- Relief well drilling: $2,850,000
- Kill operations: $220,000
- Environmental cleanup: $670,000
- Additional equipment and materials: $295,000
- Legal and regulatory compliance: $80,000

Total Claim: $4,500,000

The drilling contractor carried $15 million in Control of Well coverage with a $250,000 deductible. The insurance covered all costs above the deductible, allowing the contractor to survive the incident financially intact and continue operations.

Scenario 2: Underground Blowout with Cratering - North Dakota

An operator drilling a horizontal well in the Bakken formation at 10,200 feet total vertical depth experienced loss of circulation while drilling the lateral section. Mud returns ceased, and the crew attempted to regain circulation using lost circulation materials. During these operations, wellbore integrity was compromised, and formation fluids began flowing up outside the casing to surface at a location 350 feet from the wellhead.

The underground blowout created a subsurface flow path through fractured rock formations. As high-pressure fluids reached the surface away from the wellhead, cratering began. Within 48 hours, a crater approximately 80 feet in diameter and 20 feet deep had formed, undermining portions of the drilling pad and threatening nearby equipment.

Well control specialists determined that direct intervention at the wellhead would not be effective because the flow was occurring through formations rather than up the wellbore. A relief well operation was required. Two relief wells were drilled simultaneously from offset locations to intersect the problem wellbore above and below the suspected point of communication. The first relief well intersected after 68 days, and pumping operations killed the underground blowout.

Environmental contamination extended over 40 acres due to the crater formation and release of formation fluids, drilling mud, and produced oil. Groundwater monitoring wells detected contamination in shallow aquifers, requiring installation of a groundwater extraction and treatment system.

Total Costs Covered by Control of Well Insurance:

- Well control specialist fees: $1,240,000
- Relief well drilling (two wells): $8,950,000
- Kill operations: $560,000
- Crater restoration: $890,000
- Soil remediation: $3,200,000
- Groundwater remediation system: $1,850,000
- Environmental monitoring (2 years): $380,000
- Equipment and materials: $680,000
- Legal, regulatory, and technical consultants: $450,000

Total Claim: $18,200,000

The operator carried $25 million in Control of Well coverage with a $500,000 deductible. Insurance covered the entire claim above the deductible. Without this coverage, the independent operator would likely have faced bankruptcy, as the costs vastly exceeded annual revenue.

Scenario 3: Workover Blowout with Fire - West Texas

A well servicing company was conducting a workover operation on a producing well when tubing became stuck while pulling out of the hole. While attempting to free the stuck tubing using jar operations, the wellbore integrity was compromised, and the well began flowing uncontrolled around the tubing. The sudden release of high-pressure gas ignited on contact with hot equipment, creating a well fire with flames extending over 150 feet.

Personnel evacuated safely, but the workover rig was destroyed by fire. A specialized well firefighting team was called in and arrived on location within 36 hours. The team used water monitors and attempted to approach the wellhead to install flow control equipment, but extreme heat and radiation prevented close access.

After 9 days of attempting various firefighting approaches, the team successfully extinguished the fire using shaped explosives to disrupt combustion and immediately followed with foam suppression. With the fire out, well control specialists installed a capping assembly and began pumping operations. The well was successfully killed after 14 days of pumping heavy mud and cement.

The intense fire destroyed the workover rig completely and damaged the operator's tank battery and flowlines. Soil contamination from released hydrocarbons and firefighting materials required cleanup of approximately 8 acres.

Total Costs Covered by Control of Well Insurance:

- Firefighting specialist fees: $780,000
- Well control specialist fees: $420,000
- Well control operations and materials: $890,000
- Workover rig replacement (care, custody, control coverage): $2,400,000
- Environmental cleanup: $560,000
- Well redrill expenses: $1,200,000
- Equipment and materials: $340,000
- Third-party property damage (operator's facilities): $450,000

Total Claim: $7,040,000

The workover company carried $10 million in Control of Well coverage with a $100,000 deductible. The policy included care, custody, and control coverage for damage to the workover rig, which

proved essential. The insurance enabled the company to compensate the rig owner, clean up environmental damage, and continue in business.

Key Lessons from Claims Scenarios

These scenarios illustrate several critical lessons for companies purchasing Control of Well insurance:

- **Costs Escalate Rapidly** – Even relatively minor incidents can generate multi-million dollar expenses, especially when relief wells are required
- **Underground Blowouts Are Most Expensive** – Incidents where flow escapes through formations rather than up the wellbore typically require relief wells and generate the highest costs
- **Environmental Cleanup Is Significant** – Soil and groundwater remediation often represents 30-50% of total control costs
- **Time Duration Drives Costs** – Incidents lasting weeks or months accumulate enormous expenses through daily specialist fees, equipment rental, and extended operations
- **Coverage Limits Must Be Adequate** – Companies with insufficient coverage limits would face catastrophic out-of-pocket expenses

How to Purchase Control of Well Insurance

Purchasing appropriate Control of Well insurance requires working with specialized insurance brokers and carriers who understand the unique risks of oil and gas drilling operations. This section provides practical guidance on the procurement process, carrier selection, and policy negotiation.

Working with Specialized Insurance Brokers

Control of Well insurance is a highly specialized product that requires expertise in both insurance and petroleum engineering. Generic commercial insurance brokers typically lack the technical knowledge and market access necessary to properly structure coverage and negotiate competitive terms.

Specialized energy insurance brokers understand drilling operations, well control risks, policy language nuances, and the intricacies of energy insurance markets. They maintain relationships with underwriters at carriers that actively write Control of Well coverage and can effectively present risks to secure favorable terms.

When selecting a broker, companies should look for experience with similar operations, understanding of regional characteristics, strong relationships with multiple carriers, and proven claims advocacy capabilities. The broker becomes a critical partner in managing insurance programs over time.

Carrier Selection Considerations

Not all insurance carriers are equally capable of providing Control of Well coverage. Companies should evaluate carriers based on several critical factors:

Financial Strength

Control of Well claims can be enormous, making carrier financial strength paramount. Companies should seek carriers rated A- or better by A.M. Best, with sufficient surplus to pay large claims without financial strain. A carrier's failure to pay a major Control of Well claim could result in company bankruptcy, making financial strength more important than premium savings.

Energy Market Expertise

Carriers with dedicated energy underwriting teams, petroleum engineers on staff, and long-term commitment to the energy insurance market provide superior service and claims handling. These carriers understand drilling operations, make informed underwriting decisions, and respond appropriately when claims occur.

Claims Paying Philosophy

A carrier's reputation for fair and prompt claims payment is critical. Companies should investigate carrier claims history, talk to other insureds about claims experiences, and evaluate whether the

carrier approaches claims with a partnership mindset or an adversarial stance.

Policy Terms and Conditions

Coverage is not uniform across carriers. Policy language, exclusions, definitions, and coverage extensions vary significantly. Two policies with identical limits may provide dramatically different actual protection based on policy wording. Careful policy comparison is essential.

The Application and Underwriting Process

Successfully obtaining Control of Well insurance requires thorough preparation and proactive communication with underwriters:

Step 1: Prepare Comprehensive Submission Materials

Work with your broker to assemble detailed information about drilling operations, company capabilities, safety records, and specific well information. Complete, well-organized submissions receive faster responses and better terms than incomplete or poorly presented applications.

Step 2: Address Underwriter Questions Promptly

Underwriters will inevitably have questions about operations, procedures, or technical details. Prompt, thorough responses demonstrate professionalism and help underwriters gain comfort with the risk. Delays in responding to underwriter questions delay quotes and may result in missed drilling windows.

Step 3: Negotiate Terms Before Binding

Initial quotes may include unfavorable terms, excessive exclusions, or inadequate coverage limits. Work with your broker to negotiate better terms before binding coverage. Once coverage is bound, changing terms becomes difficult or impossible.

Step 4: Review Policy Carefully

After binding, carefully review the actual policy document to ensure it matches agreed terms and adequately protects your operations. Identify any discrepancies immediately and work with your broker to correct them.

Annual Programs vs. Per-Well Coverage

Companies have two basic options for structuring Control of Well insurance: annual programs covering all drilling during the year, or individual well policies covering specific wells.

Annual Programs

Annual programs provide coverage for all wells drilled during the policy year, typically with aggregate limits and per-well sublimits. These programs work well for companies with consistent drilling activity, offering administrative simplicity and often better per-well economics. Annual programs require reporting actual wells drilled and premium adjustments based on actual exposure.

Per-Well Policies

Per-well policies provide coverage for specific named wells, with premiums paid upfront based on well characteristics. These policies work well for companies with sporadic drilling activity or wells with dramatically different risk profiles. Per-well policies provide certainty about coverage and premium costs for each well.

Coverage Enhancements to Consider

Standard Control of Well policies can be enhanced with additional coverages that provide more comprehensive protection:

- **Extended Seepage and Pollution Coverage** – Broader environmental coverage extending beyond standard policy terms
- **Increased Care, Custody, Control Limits** – Higher sublimits for damage to drilling rigs and equipment
- **Third-Party Property Damage** – Broader coverage for damage to neighboring properties
- **Underground Resource Coverage** – Protection for damage to productive formations
- **Extended Redrill Coverage** – Broader definitions of when redrill expenses are covered

Frequently Asked Questions

Q: Is Control of Well insurance required by law?

A: Control of Well insurance is not typically mandated by statute, but it is effectively required through contractual obligations, operating agreements, and prudent business practice. Most drilling contracts, joint operating agreements, and loan covenants require specific Control of Well coverage limits. Additionally, some state regulatory agencies require proof of financial responsibility that is most practically satisfied through insurance.

Q: Can I purchase Control of Well insurance after a kick has been detected?

A: No. Control of Well insurance must be in place before drilling operations commence. Once a kick is detected or any indication of potential well control problems exists, no carrier will provide coverage. Attempting to purchase coverage after an incident begins constitutes insurance fraud.

Q: Does Control of Well insurance cover the drilling rig?

A: Standard Control of Well policies provide limited coverage for drilling rig damage under Care, Custody, and Control provisions, typically with sublimits of $2-5 million. This provides some protection but is generally insufficient to cover total loss of a modern drilling rig. Drilling rig owners should maintain separate physical damage insurance on their equipment.

Q: What is the difference between Control of Well and Operator's Extra Expense (OEE)?

A: These terms are often used interchangeably, though technically OEE is broader and may include additional coverages beyond basic Control of Well protection. Both address costs of regaining well control, but OEE policies may also include coverage for lost production, additional development costs, and other expenses beyond pure well control costs. Policy terms vary by carrier.

Q: How long does Control of Well coverage remain in force?

A: For per-well policies, coverage typically extends from spud date through a specified period after completion, often 90-180 days. This completion period protects against incidents during initial production. Annual programs provide coverage throughout the policy year for all operations conducted during that period. For both policy types, coverage for claims discovery and reporting usually extends for several years after the policy period for gradual pollution incidents.

Q: Will Control of Well insurance cover fines from regulatory agencies?

A: No. Regulatory fines, penalties, and punitive damages are excluded from coverage under virtually all Control of Well policies. This exclusion reflects public policy that insurance should not shield companies from the consequences of regulatory violations. However, the policy will cover compensatory damages and reasonable costs of regulatory compliance activities related to the incident.

Q: Can I purchase Control of Well insurance for operations outside the United States?

A: Yes, though international operations often require different policy structures and may face higher premiums or more restrictive terms. Operations in certain countries with political instability, weak legal systems, or high corruption may be difficult or impossible to insure through standard markets. Specialized international energy insurance brokers can access Lloyd's of London and other markets that write worldwide coverage.

Q: What happens if my carrier becomes insolvent before paying a claim?

A: Carrier insolvency is a rare but serious risk. State insurance guaranty funds provide some protection for insolvent carriers, but coverage limits are generally inadequate for large Control of Well claims. This reality makes carrier financial strength critically important. Companies should only purchase coverage from highly rated carriers with strong capital positions.

Q: Does Control of Well insurance cover horizontal drilling and fracking operations?

A: Yes, modern Control of Well policies cover horizontal drilling and hydraulic fracturing operations. However, these operations may require policy endorsements or enhanced coverage to properly address the unique risks of horizontal wellbores, multi-stage fracturing, and inter-well communication. Companies should ensure policies explicitly address these operation types.

Conclusion

Control of Well insurance represents one of the most critical risk management tools available to drilling contractors, well operators, and energy service companies. The extraordinary costs associated with well control incidents—ranging from millions to billions of dollars—make proper insurance coverage essential for business survival and long-term success.

This comprehensive guide has examined Control of Well insurance from multiple perspectives: defining the coverage and its components, explaining why coverage is essential, detailing what is and is not covered, identifying who needs the coverage, discussing limits and costs, outlining underwriting requirements, presenting real-world claims scenarios, and providing practical guidance on purchasing appropriate protection.

Key Takeaways

Companies operating in the drilling and well servicing sectors should remember several critical points:

- **Coverage is Not Optional** – For any serious drilling operation, Control of Well insurance is effectively mandatory through contractual requirements and prudent risk management
- **Adequate Limits Are Essential** – Coverage limits must reflect the maximum reasonably possible loss, not just contractual minimums or premium budget constraints
- **Policy Terms Vary Significantly** – Not all Control of Well policies provide equal protection; careful policy review is essential
- **Carrier Selection Matters** – Financial strength and energy market expertise should drive carrier selection more than premium costs
- **Specialized Expertise Required** – Working with brokers who specialize in energy insurance dramatically improves coverage quality and claims outcomes

The Path Forward

Companies should approach Control of Well insurance procurement proactively, beginning the process well in advance of drilling operations. Develop relationships with specialized energy insurance brokers, maintain comprehensive safety and well control programs to improve insurance terms, and treat insurance as a critical business partner rather than a grudge purchase.

Regular policy reviews ensure coverage remains appropriate as operations evolve, technology advances, and market conditions change. Companies that take insurance seriously, invest in proper coverage, and maintain strong broker and carrier relationships position themselves for long-term success in the challenging and rewarding energy industry.

Expert Assistance Available

Crescenta Valley Insurance (CVI) through our FCIS Group division specializes in providing Control of Well insurance and comprehensive energy insurance programs for drilling contractors, operators, and service companies throughout North America. Our team brings deep industry knowledge, strong carrier relationships, and proven expertise in hard-to-place energy risks.

We understand the unique challenges faced by drilling contractors, well operators, and energy service companies. Our specialized approach ensures you receive appropriate coverage at competitive rates from financially strong carriers committed to the energy sector.

Contact Our Energy Insurance Specialists:

■ Call or Text: 818-974-8117

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