Business Insurance

BP disaster caused by series of risk management failures: Report

Federal report says no risk assessment done before blowout

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Risk management failures were a core factor leading to last year's offshore oil well disaster in the Gulf of Mexico, a federal report released last week concluded.

The joint report by the U.S. Coast Guard and Bureau of Ocean Energy Management, Regulation and Enforcement into the Macondo well blowout that led to the Deepwater Horizon disaster put most of the blame on BP P.L.C., but also found fault with driller Transocean Ltd. and cement specialist Halliburton Co.

"The blowout at the Macondo well on April 20, 2010, was the result of a series of decisions that increased risk and a number of actions that failed to fully consider or mitigate those risks," the report said.

AP

Last year's explosion and fire on the Deepwater Horizon oil rig, which killed 11 and dumped millions of gallons of oil into the Gulf, was caused by a series of risk management failures, an investigation concluded last week.

The investigative panel "found no evidence that BP performed a formal risk assessment of critical operational decisions made in the days leading up to the blowout. BP's failure to fully assess the risks associated with a number of operational decisions leading up to the blowout was a contributing cause of the Macondo blowout."

The report also said cost- or time-saving decisions made by BP "without considering contingencies and mitigation" contributed to the disaster, as was the energy company's "failure to ensure all risks associated with operations on the Deepwater Horizon were as low as reasonably practicable."

The explosion and fire at the offshore rig killed 11, injured numerous others and led to nearly 5 million barrels of oil pouring into the Gulf of Mexico before the well was capped on July 15, 2010.

Jim Guild, senior vp-global property/casualty with Willis Group Holdings P.L.C. in Houston, said the "risk management" discussed in the report actually is focused very specifically on procedures meant to ensure the safety of such drilling ventures.

"The risk management that is in that report is not traditional insurance risk management," Mr. Guild said. "It is true risk management of the work being done and recognizing the hazards and making sure you're safe before taking the next step in the procedure."

The risk management in question in the Deepwater Horizon disaster involved understanding the hazards drill crews faced, as well as the checks and balances meant to prevent such accidents. Asked Mr. Guild, "With all of the protections that should have been available, why did they still have the problem?"

The report cited "technical steps they should have taken" and "warning signs" that should have been heeded, said Chris Moss, senior risk management consultant at Charles Taylor Risk Consulting in Dallas.

"The Deepwater Horizon event has huge implications for risk management in general," Mr. Moss said. "At its broadest, there are so many examples of just simple things that could have been done. This is like so many man-made disasters that is the result of a series of things that have gone wrong."

While saying he hasn't yet read the report in its entirety, Mr. Moss said that from some of the findings he is aware of, "there were striking similarities to the Piper Alpha incident in the North Sea many years ago." The Piper Alpha platform was destroyed by fire in 1988 after an explosion, killing 168.

Brian T. Petty, executive vp of government affairs at the Washington-based International Assn. of Drilling Contractors, late last week said that the report's findings still were being studied by the industry, and it was unclear what new risk management lessons might be part of the findings.

Like a report released this year by a presidential commission studying the disaster, this latest report suggests various regulatory and industry reforms aimed at preventing such incidents in the future.

The industry generally moves quicker than government regulators in responding to problems, Mr. Petty said, noting that "the industry has been in response mode since the Macondo blowout."
