

U.S. Insurer Won't Cover Gas Drill Fracking Exposure

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ALBANY, N.Y. (AP) — Nationwide Mutual Insurance Co. has become the first major insurance company to say it won't cover damage related to a gas drilling process that blasts chemical-laden water deep into the ground.

The Columbus, Ohio-based company's personal and commercial policies "were not designed to cover" risk from the drilling process, called hydraulic fracturing, or fracking, Nationwide spokeswoman Nancy Smeltzer said Thursday.

The process injects chemically treated water into wells to fracture shale thousands of feet underground and release trapped gas or oil. There are rich shale deposits in parts of Pennsylvania, New York, Ohio, West Virginia and elsewhere.

Health and environmental groups claim fracking can contaminate drinking water. The gas industry says it's safe if done properly. Nationwide said risks involved in fracking operations "are too great to ignore" and apply to policies of commercial contractors and landowners who lease property to gas companies.

The Nationwide policy first came to light when an internal memo detailing underwriting guidelines was posted on websites of upstate New York anti-fracking groups and landowner coalitions seeking gas leases. Smeltzer confirmed that the memo was genuine but said it wasn't intended for public dissemination.

The memo reads: "After months of research and discussion, we have determined that the exposures presented by hydraulic fracturing are too great to ignore. Risks involved with hydraulic fracturing are now prohibited for General Liability, Commercial Auto, Motor Truck Cargo, Auto Physical Damage and Public Auto (insurance) coverage."

It said "prohibited risks" apply to landowners who lease land for shale gas drilling and contractors involved in fracking operations, including those who haul water to and from drill sites; pipe and lumber haulers; and operators of bulldozers, dump trucks and other vehicles used in drill site preparation.

A spokesman for a research and outreach program of the Independent Petroleum Association of America, whose members drill most of the nation's oil and gas wells, said nothing in what Nationwide said represented a change in policy for the company. Simon Lomax, the research director for Energy In Depth, said insurers don't sell products specific to individual steps of the oil and gas development process.

"But practical implications aside, the fact that the company would send out a

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Published on Chem.Info (<http://www.chem.info>)

statement this reckless, and this uninformed, should tell us a lot," Lomax said in an emailed statement. "For starters, it tells me that I won't be buying home and car insurance from this company."

Opponents of fracking point to some highly publicized accidents that resulted in contamination.

In late 2010, Houston-based driller Cabot Oil & Gas Corp. settled for \$4.1 million with residents of Dimock, Pa., over gas found in their water. State environmental regulators determined Cabot contaminated the aquifer underneath homes with explosive levels of methane. A Cabot spokesman said levels of contaminants found didn't pose a threat to human health or the environment.

Jeffrey Hanneman, the Texas-based director of environmental practice at the insurance broker Aon Risk Solutions, said the Nationwide move was "really unique" and he doesn't expect it will be the beginning of a trend.

"To date, all we've seen are some that were hesitant to write environmental coverage," Hanneman said. "But the Nationwide is sort of a broader ban on all the ancillary services related to it (fracking)."

Hanneman noted that there haven't been any substantial claims that targeted companies other than those that own and operate the wells or the contractors who do the drilling. And even those claims have been few and far between.

He said one factor that may be driving Nationwide's decision is that increasing publicity — much of it negative — surrounding fracking makes it possible that any damage claims would go beyond the big oil and gas companies to include the hundreds of supporting businesses such as haulers.

Mike Elmendorf, president of the general contractors' group Associated General Contractors of New York State, said the Nationwide decision was unwelcome news for his members who do work for the gas industry and was not based on facts.

With a record of shale gas development having been done safely, "it is hard to fathom the rationale for this decision," Elmendorf said. "It would seem Nationwide is not on job creation's side."

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Associated Press writer Rik Stevens contributed to this report.

Source URL (retrieved on 01/27/2015 - 4:50pm):

<http://www.chem.info/news/2012/07/us-insurer-wont-cover-gas-drill-fracking-exposure>