Loss of Production Income Wording JR2005 / 003 - Unit Price Volatility

The Joint Rig Committee would like to provide some background on the LOPI Form.

The above form was introduced in 2005 in an environment of relatively low oil and gas prices. The prices for these commodities have subsequently risen and fallen dramatically. The Form attempted to address the fact that loss of production income insurance provides indemnity in respect of income deferred and/or expense incurred and that such income/expense had the potential for considerable volatility if based upon future commodity prices.

The wording allows for variable production at a fixed 'Unit Price'. The 'Unit Price' is defined as; 'Unit Price shall be as stated in the Schedule'. This is normally fixed at the start of the policy and is intended to represent a fair valuation for a proportion of income/expense that might potentially arise in the event of loss.

The formulaic approach to calculating recovery has the advantage of easier calculation and loss adjustment but has the disadvantage that both Unit Price and Unit Volume may require re-evaluation in order that an equitable relationship between potential recovery and loss is maintained.

It is clear that the relatively low current oil price has increased the possibility of betterment under this wording.