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BP Plunges After Attempt to Plug Gulf Oil Leak Fails (Update2)
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(Updates share drop in second paragraph. For more on the Gulf oil spill, see {EXT4 <GO>}.)

By Brian Swint and John Glover

June 1 (Bloomberg) -- BP Plc fell the most in 18 years in London trading after abandoning an attempt to plug a leaking oil well in the Gulf of Mexico, the worst spill in U.S. history.

BP plunged as much as 17 percent to 411.5 pence, the steepest one-day drop since June 1992, and its bonds traded in line with companies rated as much as five levels lower. BP said on May 29 the attempt to plug the leak using heavy fluids and debris had failed. That rules out stopping the flow of oil from the well until relief drilling is completed in August.

"Until the flow of oil from this well can be halted, there will remain considerable uncertainty over the potential damages," said Peter Hitchens, an analyst at Panmure Gordon & Co. in London. "Although we believe that the market has overreacted to the bad news, we feel that there will be little stimulus to the shares whilst this leak continues to pump oil into the sea."

The company will now try to contain the spill by fitting a pipe over the leak later this week to bring the oil to a drillship on the surface, it said in a statement in London today. The operation may temporarily increase the flow of oil into the Gulf before a cap can seal the pipe. The cost of responding to the spill has risen close to \$1 billion, BP said.

Investors demand a yield premium of 148 basis points on average to buy BP's bonds rather than government debt, Bank of America Merrill Lynch's energy industry index shows. That's almost double the 77-basis point spread on notes sold by industrial companies with similar credit ratings. The shares traded at 419 pence at 12:04 p.m. London time.

Chief Executive Officer Tony Hayward's effort to stop the leak and clean up the spill is becoming more urgent as hurricane season starts. Winds from the southwest could spread the spill this week to threaten the coasts of Mississippi and Alabama, the National Oceanic and Atmospheric Administration said.

BP said today it has so far spent \$990 million responding to the explosion on the Deepwater Horizon rig on April 20 that killed 11 workers, as well as the cleanup from the oil spill.

Survival at Stake

The company's survival is at stake, London-based investment bank Arbuthnot Securities Ltd. said today. The cost of the disaster and the share-price drop may make BP a takeover target or force the company to split up, analyst Dougie Youngson said in a note.

Credit-default swap contracts on BP rose to a record 136 basis points from 100.6 basis points on May 28, according to CMA DataVision prices in London. A basis point on a contract protecting 10 million

euros (\$12.2 million) of debt from default for five years is equivalent to 1,000 euros a year.

Using robots at the mile-deep well, BP plans to shear away most of the damaged pipe that once rose from the well to the Deepwater Horizon.

It will then make a more precise cut with a diamond-toothed band saw to make a clean junction for a gasket-lined cap, which is intended to catch most of the oil and route it to the surface through a pipe, BP Managing Director Robert Dudley said in television interviews last weekend.

Engineers expect the method to work better than a smaller pipe used to capture 22,000 barrels of oil, he said.

The well has spewed from 12,000 barrels to 19,000 barrels of oil a day, a government panel estimated May 27. Government experts estimate the spill will increase over the four to seven days BP needs to fix the cap, White House Energy Adviser Carol Browner said on May 30.

Winning the Lottery

BP reiterated that the first relief well, which it began drilling May 2, is now at 12,090 feet, two-thirds of the way to completion. The drilling effort is "on track, even slightly ahead," said BP's Pack.

The chances of intercepting the damaged well with a relief well on the first try are equivalent to winning the lottery, according to David Rensink, the president-elect of the American Association of Petroleum Geologists. Initial failure is "almost a certainty," he said.

President Barack Obama ordered BP's cleanup efforts tripled in oiled areas that encompass 107 miles (172 kilometers) of shoreline and 30 acres of tidal marsh.

"Every day that this leak continues is an assault on the people of the Gulf Coast region, their livelihoods, and the natural bounty that belongs to all of us," Obama said in a statement May 29. "It is as enraging as it is heartbreaking."

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