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## Shell's rocky return

### Oil giant's plans to go after oil in Beaufort and Chukchi seas have to wait

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Two decades ago, when Dutch oil giant Shell was poking holes in the ice-clogged Arctic Ocean, Rick Fox was a young buck managing the company's drilling rigs.



BOB HALLINEN / Anchorage Daily News  
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Rick Fox, Shell's Alaska asset manager, is on his second tour of duty here. He managed offshore rigs for Shell during the late 1980s and says some of the exploratory wells showed promise.

Some of the holes hit oil, and Fox and the other oil men felt pretty good about what they found.

But none of the discoveries was developed -- the price of oil was too low and the finds too remote -- and Shell abandoned Alaska's Arctic.

Now Fox, 55, and Shell are mounting an aggressive return to the polar ocean, staking hundreds of millions of dollars to lease vast offshore acreage, staff an Anchorage office and assemble a flotilla of drilling ships to sink more holes in the Beaufort Sea.

The reason for the return is the high price of oil plus potential for big discoveries, says Fox, now the company's Alaska asset manager.

"Conditions are right for us to re-enter and give it another shot," he says. "And we are committed in a very big way."

If Shell and other companies that might follow are successful, they could open a vast frontier and ignite a potentially dazzling new era for Alaska's most important industry, oil and gas.

But getting there has proven difficult. Last week, the 9th U.S. Circuit Court of Appeals in San Francisco dealt what could be a death blow to Shell's drilling plans --

at least for this year.

Citing "serious questions" raised by the North Slope Borough, Native whale hunters and national environmental groups, a three-judge panel ruled Shell can't drill until petitions opposing the project are resolved.



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**Royal Dutch Shell at a glance**

- **What:** One of the world's largest oil, gas and petrochemical companies active in more than 130 countries and territories with 108,000 employees.
- **Headquarters:** The Hague, Netherlands.
- **Financials:** \$24.8 billion profit in 2006.
- **Alaska presence:** 20 Shell employees and 30 contract workers in the Frontier Building in Midtown Anchorage.
- **Top local executive:** Rick Fox, Alaska asset manager.
- **Recent business moves:** Bid \$39.3 million in April and \$44.4 million in March 2005 to lease 832,847 Beaufort Sea acres for oil and gas exploration. Lease tracts cover, or are adjacent to, known oil deposits including Steadly and Kuzlar.
- **Web site:** [www.shell.com](#)

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A device carried by helicopter for dropping ignited lumps of gelled gasoline. Setting oil ablaze is one way Shell says it can clean up a spill in ice-choked seas.

Source: Shell

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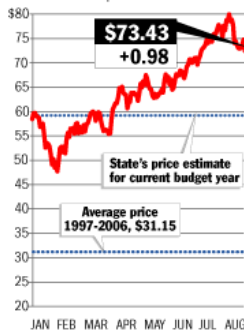
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## Alaska oil

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According to the court's schedule for the case, that will take until early December at best. By then the Beaufort Sea likely will be frozen, locking out Shell's drilling ships.

Petroleum News

The opponents raise a complex set of objections, but they center on fears that industrial noise and spills could disturb or harm endangered bowhead whales, polar bears, fish and birds that sustain an ancient Inupiat subsistence culture.

They accuse regulators in a Bush administration eager to boost U.S. oil production of giving short shrift to the risks.

With the court order, which extends an earlier stay imposed July 19, Shell's drilling fleet sits idle in Dutch Harbor and a Canadian bay at great expense.

Shell spokesmen say the company is weighing its legal options and isn't mothballing its fleet just yet.

Gov. Sarah Palin decried the court order, calling it "a threat to our economic future."

North Slope Borough Mayor Edward Itta, himself a whale hunter, says he's just glad the court is listening to the concerns opponents have raised.

"From the beginning, we have opposed offshore development," he says.

ARCTIC PROMISE

Federal geologists estimate the Beaufort Sea, along Alaska's northern edge, and the neighboring Chukchi Sea, stretching west to Russia, could yield more than 14 billion barrels of oil at current prices. That's more than the nation's biggest field, Prudhoe Bay, has produced so far.

Yet despite their potential, the Arctic waters have been lightly explored compared with other offshore oil provinces.

According to the U.S. Minerals Management Service, an Interior Department agency that regulates offshore exploration, only 30 exploration wells have been drilled in the Beaufort and five in the Chukchi. By comparison, thousands of wells have been drilled in the Gulf of Mexico, which has a vigorous offshore oil and gas industry.

While some oil has been produced from the shallows along the North Slope shoreline, not much has come from beyond three miles out -- waters under federal jurisdiction. Only the Northstar field, which Shell discovered in 1983 but now belongs to BP, produces oil offshore.

Because the offshore is so forbidding and devoid of a pipeline network to transport the oil, discoveries must be huge -- perhaps even a billion barrels -- to justify the cost of development, says Ken Boyd, a former state oil and gas director now working as an industry consultant.

Boyd believes it is critical for the state's economy that drillers find offshore oil fields to replace fading onshore giants Prudhoe and Kuparuk.

"Shell is working on the other half of Alaska's future," says Boyd, the opposite half being the enormous reserves of North Slope natural gas.

Shell's most immediate target is a previously abandoned prospect it calls Sivulliq, an Inupiaq word meaning "first one." The prospect lies under more than 100 feet of water about 16 miles offshore. The Arctic National Wildlife Refuge, which is closed to oil drilling, is just east of Sivulliq.

Shell already knows the prospect likely contains hundreds of millions of barrels of oil, having joined in a Unocal-led drilling partnership that found what was then called Hammerhead in the mid-1980s.

Using two enormous drill ships, Shell hoped to sink three new holes on the prospect this year to clarify how much oil Sivulliq holds.

Fox says today's technology is much more advanced, with directional drilling to pinpoint the most likely oil pockets and data streaming to allow Shell's best minds to make adjustments from their offices in Anchorage or Houston.

Beyond just exploring, Shell already has signaled it might develop Sivulliq and join the ranks of the North Slope's other three major producers -- Conoco Phillips, BP and Exxon Mobil.

Shell planned to take seafloor corings this year, part of the groundwork for installing an offshore production plant and a subsea pipeline to shore.

'IMMINENT THREAT OF DEATH'

As with past offshore drilling in the Arctic, Shell's plans rile some people.

Environmental groups, the North Slope Borough and the Alaska Eskimo Whaling Commission, which represents whaling villages, went to court to challenge the federal approval of Shell's

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Beaufort exploration.

They also filed appeals to block air pollution permits the U.S. Environmental Protection Agency issued to Shell to run its diesel-burning drill rigs and support ships. The EPA's Environmental Appeals Board in Washington, D.C., is weighing whether to free up Shell's permits.

The borough and the whalers worry that noise from seismic testing, the drilling ships and icebreakers that escort and protect the rigs will drive bowhead and beluga whales off their normal migratory paths and farther to sea.

If this happens, the already perilous whale hunts will become even more dangerous for crews forced to range farther offshore in small aluminum or sealskin boats to find whales, say lawyers for the borough and whalers. And if they make a kill, the meat could spoil in the time it would take to tow the behemoth home for butchering on the beach.

Subsistence is central to Inupiaq culture and spirituality, and bowhead meat and blubber is a vital foodstuff for people susceptible to diabetes if they decrease their traditional diet, according to court papers seeking to block Shell's drilling.

"The imminent threat of death or serious injury resulting from the deflection of the bowhead migration is likely," the papers say.

The objections are much broader, however, than the bowhead whale, says Itta, the borough mayor.

He says the Minerals Management Service did a poor job of assessing the risks not only to the bowhead but to the entire Arctic ecosystem -- a view shared by environmental groups such as the Alaska Wilderness League, the Sierra Club and the Natural Resources Defense Council. They've asked the court for a more in-depth environmental study.

Itta also says Shell has yet to show him how it can clean up an oil spill in ice-filled waters.

It doesn't help that the borough would enjoy no tax or other revenue if Shell strikes it rich in the federal offshore waters, the mayor adds.

"Imagine your way of life being put at risk and you get nothing. Of course it's a major concern," he says.

On land, the borough's relationship with the oil industry has been more friendly.

The Barrow-based local government traditionally has supported much of the onshore oil development across the Slope. Discovery of the Prudhoe Bay field led to the borough's formation in 1972, and hundreds of millions of dollars in tax collections on the industry have transformed life for many of the borough's 8,000-plus residents.

While an environmental study by the Minerals Management Service does show that whales can hear industrial noise for miles around and will swim away from it, the agency issued a "finding of no significant impact" for Shell's three-year exploration plan.

John Goll, the agency's Alaska director, defends his agency's assessment of the risks to the whales and the Arctic environment.

"We feel confident of the work we did," he says.

The likelihood of a well blowout and major spill is small, Goll adds.

He cites federal figures showing that of the more than 13,000 exploratory wells drilled in U.S. offshore waters from 1971 to 2005, four spills of 34 to 8,400 gallons occurred -- none considered large by agency standards.

#### WAITING FOR WORK

Shell managers say they've assembled a powerful oil spill response fleet tailored especially for the Arctic drilling campaign. The flagship is the newly launched 305-foot Nanuq, which will carry 44 spill responders plus smaller boats to help deploy cleanup gear such as booms and skimmers.

Operations manager Susan Moore says Shell's response fleet is unusual because it won't be based on land. Rather, it will stand by the two drill ships continuously and be ready to jump on trouble immediately.

Counting two icebreakers and other support vessels the company either built or hired, including an oil tanker capable of holding 500,000 barrels of skimmed oil and water, Shell's drilling flotilla will number about 16 vessels.

Many will carry North Slope village residents and interpreters to act as lookouts for whales and other marine mammals, and they will have authority under certain circumstances to order a halt to the work, Shell managers say.

It's a costly fleet, one Shell intended to put to work as early as June were it not for the court and permit delays.

One of its drill ships, the Frontier Discoverer, is anchored in the Aleutian port of Dutch Harbor while another, the Kulluk, waits in Canada's McKinley Bay.

Shell had made some concessions outside of court in an effort to clear the way for drilling this summer and fall.

On July 26, the company and many of the Slope's whaling captains announced they had signed a "conflict avoidance agreement" to suspend drilling during the fall bowhead hunt.

Other groundwork Shell has laid could help it carry out its long-range plans.

The company has hired former officials in the Interior Department, which Shell must rely on to press the court fight. And it added George Ahmaogak Sr., a whaling captain and former North Slope Borough mayor, as community affairs manager.

Shell also gave Arctic Slope Regional Corp., the Native corporation for the North Slope, the contract to handle spill response -- a source of jobs for villagers.

Even if this drilling season is lost, Shell's Fox says people shouldn't look for the company to abandon the Arctic again. The company plans to move ahead with offshore seismic surveys this summer.

"We believe we have an inside track here because of our previous efforts," Fox says. "It's a very promising arena for us."

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