Shell faces an Arctic meltdown

EMILY GOSDEN

ROYAL DUTCH SHELL could be forced to delay its entire drilling programme in the Arctic this year unless its grounded Kulluk rig can be repaired in time, the City's top oil analyst has warned. The oil major's controver-

sial project also faces a series of regulatory hurdles that may now be even harder to pass as opponents of Arctic drilling prepare to capitalise on the reputational damage of the accident.

Last night, the Kulluk drill-ing rig remained grounded off Alaska as the US Army was drafted in to help salvage operations. Officials were unable to say whether the rig, which was hit by a storm while being towed to Seattle for maintenance, was seaworthy or when it could be moved.

Shell refused to comment on whether it would be able to continue with its plans to drill for oil this summer - the culmination of a seven-year quest that has already seen it spend nearly \$5bn (£3.1bn). It plans to drill with the Kul-

luk in the Beaufort Sea and another rig, the Noble Discoverer, in the Chukchi Sea, where it spent more than \$2bn acquiring leases. But its own safety plans require both rigs to be available so one can drill a "relief well" to stem a spill in the event the other suffers a blowout.

Jon Rigby, head of Euro-pean oil and gas research at UBS and Extel's top-rated oil analyst for four years running. said: "The absence of a second drill ship this summer, if it comes to that, might hold back all operations, putting the company out of compliance with its safety case further delaying drilling and adding costs."

The grounding of the drilling rig, the cost of which Shell has yet to quantify, was "unlikely to hurt [Shell's] bot-programme under way in tom line directly" but constituted a "very unfortunate limited it to drilling shallow reputational hit", he said in a research note. "The costs to Shell of a salvage operation and any needed repairs mer's programme, Shell must are unlikely to be great. But negative headlines are not helpful."

The Arctic is seen as one of rocks. the world's most promising untapped oil and gas regions,

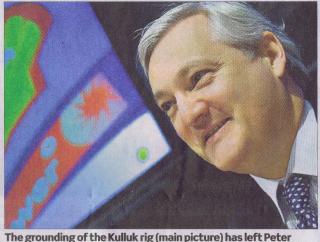


the Chukchi Sea and 8bn barrels under the Beaufort. Shell first planned to drill

there in 2007 but faced legal and regulatory delays. It 2012 but a series of setbacks "top-holes".

Even if the Kulluk can be repaired in time for this sumsecure a series of regulatory approvals before it can drill into potentially oil-bearing

A "containment dome", a key piece of equipment used with as much as 15bn barrels to cap any spill, needs further of oil thought to lie beneath work after being "crushed like



Voser, Shell's chief executive, dealing with a 'reputational hit'

a beer can" during tests, Shell's 10-year exploration scrutiny after the Kulluk Shell than \$5bn that they can according to official emails. licences, which were granted accident. "We will try to put earn in one quarter," he said. The Noble Discoverer is also being repaired after the Coast Guard flagged problems. Shell may also need fresh

approval from the US authorities for its 2013 drilling plans, permits for specific wells, and for the project's impact on marine mammals.

"Shell got a green light to harass polar bears, but just for 2012; they will have go back and explain how many they intend to disrupt were they to go back in 2013," said Ben Ayliffe, head of Greenpeace's Arctic campaign.

between 2005 and 2008, may expire before Shell can prove there are commercially viable oil discoveries. It has begun

EPA / ION KUNGENBERG / IS COAST GUAR



Arctic campaign to date

talks to try to secure extenfactors beyond their control.

Hanging over the entire But those licences are likely operation is the threat that to come under even closer more important to people like hell to pay."

pressure on the US administration to suspend future drilling permits for Shell and the Shell facing awkward quesrest of the oil industry," Mr Ayliffe said.

Malcolm Graham-Wood, oil analyst at VSA Capital, said if Shell's plans were delayed "it ally. He questioned its ability the Arctic in the longer term".

He felt Shell would press ahead for now as "the costreward equation is still in their favour". But if the reputational risk of continuing proved worse than that of pulling out, they might reconsider.

"Reputational risk is much they spill anything it will be

drilling into oil-bearing zones. Certification is eventually granted in October.

September Shell is forced to stop drilling preparatory topholes in the Chukchi Sea after one day when a giant floe of sea ice, 12 miles by 30 miles in size, moves toward the site. A containment dome, used to cap a spill, is damaged in final testing. Official emails say it was "crushed like a beer can" when dropped.

July The Noble Discoverer rig December Reports show that slips its moorings in a storm and drifts towards shore in a bay in the US Coast Guard has found the Aleutian area of Alaska.

Summer 2012 Shell is forced to wait to begin work in the Beaufort Sea until local communities have completed their annual whale hunt.

The Arctic Challenger oil spill response barge fails to receive US Coast Guard certification as planned, preventing Shell

issues with safety and pollution-prevention equipment on the Noble Discoverer rig after it returns from drilling. Dec 31 The Kulluk rig runs

aground off Alaska after breaking off from tow boats during a storm, while being moved back to Seattle for maintenance.



Writing off such a high-pro-

file investment would leave

tions from investors. One leading shareholder told The Sunday Telegraph he felt the market was "fed up" with Shell genermight cause them to rethink to translate high capital expenditure across its portfolio into increased production, adding: "They are trying to advance [on] too many fronts, not particularly well.'

Investors did not oppose Shell exploring the Arctic but were "nervous", he said. "If