

Shell one step closer to drilling in Beaufort, Chukchi seas

BY TIM BRADNER
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Shell Oil is a step closer to testing oil and gas prospects in the Beaufort and Chukchi seas this summer.

The U.S. Environmental Protection Agency has issued a draft air quality permit for Shell's 2010 exploration program in the Alaska Chukchi Sea, and the company says it is now "guardedly optimistic" that it will be able to clear hurdles in time to drill in the summer open-water season in the Arctic, a Shell official said Jan. 8.

Pete Slaiby, Shell's vice president for Alaska, said the agency's release of a final draft air permit, actually a second version of an initial draft released last fall, is a positive step in Shell's efforts to drill on leases for which it paid \$2.2 billion in a 2008 outer continental lease sale in the Chukchi Sea.

Alaska U.S. Sen. Mark Begich announced release of the permit in a Jan. 7 statement.

An EPA spokesman in Seattle said Begich had been informed in advance of public notice and that the permit will be posted on the agency's Region 10 Web site.

A 30-day public review period for the permit has started, EPA spokesman Tony Brown said.

Rebecca Noblin, spokeswoman for the Center for Biological Diversity, said her group was disappointed that EPA chose to issue the permit.

"This will result in the release of 1,800 tons to pollutants, including high levels of particulates, over a six-month period in a pristine Arctic environment," she said.

The particulates, from diesel exhaust, a form of black carbon, are a concern because they can affect climate change in two ways, one by absorbing heat and the second by reducing the reflective quality of ocean ice, Noblin said.

The Chukchi Sea permit is the first air quality permit the EPA has developed for outer continental shelf areas over which it has jurisdiction, which include the Alaska OCS and Eastern U.S. Gulf of Mexico OCS regions. In the central and western gulf areas, the U.S. Minerals Management Service issues air quality permits, but Congress has given EPA the authority over other OCS areas not yet producing.

Industry officials are closely watching the Chukchi permit for differences in the way EPA will manage OCS air permits compared to procedures now used by MMS in the gulf.

Begich said Shell made important changes in its exploration program in response to concerns voiced by Arctic coastal communities.

"Pending issuance of a final permit approval after the public comment period ends Feb. 17, and any subsequent administrative appeals to the Environmental Appeals Board, this is the final administrative step to allow oil and gas exploration on these Chukchi Sea



Pete Slaiby, Shell Oil's vice president for Alaska, sits in his office. The U.S. Environmental Protection Agency has issued a draft air quality permit, effectively placing Shell one step closer to drilling offshore in the Beaufort and Chukchi seas this summer. Environmental groups are expected to appeal the decision. PHOTO/Michael Dinneen/AJOC

leases in 2010, " Begich said in the press release.

EPA has scheduled public hearings in Barrow on Feb. 16. Barrow is the closest major community to the exploration area. North Slope Borough officials did not return calls for comment before press time.

Slaiby said the EPA's draft permit is a big step, but that the final permit must still be issued.

"The announcement is good news, but the length of the public comment period combined with likely appeals still pushes the boundaries of our ability to drill in 2010," Slaiby said. "Obviously, the windows in which we have to operate are limited and a decision to move forward is an extremely expensive one. We will continue to monitor our options in the days ahead as we get closer to making that critical decision."

Slaiby said Shell hasn't seen the final language in the permit, but the company is optimistic that many issues Shell raised in the initial draft, particularly regarding operating restrictions, will be addressed.

Now that the draft permit is issued, a remaining uncertainty is how long the internal EPA Environmental Appeals Board would take in considering an appeal of the final permit. An appeal by environmental groups, who have opposed offshore drilling in the Arctic, is considered likely.

If the appeals board takes several months to make a decision, the delay could still jeopardize Shell's summer plans.

Shell must make a decision in early

spring on whether to mobilize a small fleet of vessels to do the drilling. The company, which has budgeted \$350 million for its summer program in Alaska, will use the drillship Frontier Discoverer along with several supporting vessels, including an icebreaker and an oil spill response barge.

One to two wells are planned on Shell's leases in the Chukchi and Beaufort seas this summer.

Alaska's two senators, Begich, a Democrat, and Republican Lisa Muskowski, provided important support for the permit, as did Republican Gov. Sean Parnell, Slaiby said.

The draft air permit comes on the heels of conditional approval by the Minerals

Management Service of Shell's Beaufort and Chukchi plans of exploration, Slaiby said.

The EPA is expected to issue in February a draft air quality permit for the Beaufort Sea, but its provisions are expected to be similar to the Chukchi permit, he said.

Shell plans to drill up to three wells in the Chukchi Sea with the Frontier Discoverer. Shell is currently installing a \$25 million catalytic exhaust system in an effort to further curb air emissions.

"Our goal is to meet or exceed requirements for operating in the Arctic. The use of ultra-low sulfur diesel fuel and the voluntary retrofit of our drilling rig is part of that commitment," Slaiby said.