

THE WALL STREET JOURNAL.

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Shell's Hopes Raised on Arctic Drill Permits

MAY 11, 2011.

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The White House is ratcheting up its involvement in a looming decision on whether to grant Royal Dutch Shell PLC permission to drill for oil off the coast of Alaska, raising the company's hopes that it can secure the necessary permits for an expensive and controversial project.

In an interview, Shell's U.S. president, Marvin Odum, said a meeting last week with senior Environmental Protection Agency officials and top energy aides to President Barack Obama left him more confident Shell would get all the permits it needs to start drilling in the Arctic seas off Alaska next year. The drilling plans have faced fierce opposition from environmental and some indigenous Alaskan groups and, a senior administration official noted, must still secure the approval of multiple federal agencies.

The White House's increased attention to Shell comes as congressional Republicans and Democrats from oil-rich states are raising pressure on the administration to allow more domestic drilling. Amid turmoil in the Middle East, crude prices—and gasoline prices—have jumped in recent months.

At the same time, environmental groups and other Democrats in Congress want Mr. Obama to tighten regulation of deep-sea exploration in

the wake of last year's Gulf of Mexico oil spill involving BP PLC.

One area that symbolizes the competing pressures is Alaska's coastal waters. The Chukchi and Beaufort Seas off Alaska are thought to contain 25 billion barrels of oil and 100 trillion cubic feet of natural gas—the U.S.'s second-largest hydrocarbon reserves after the Gulf of Mexico.

But despite having invested \$3.5 billion in its offshore Alaska exploration program, Shell has yet to drill a single well there. Its plans have been stymied by legal challenges and regulatory hurdles, which have only grown since BP's deepwater-well blowout last year.

The latest setback came in December, when an air-quality permit that Shell had received from the Environmental Protection Agency for temporary exploration operations was invalidated by a panel of administrative-law judges at the U.S. agency. The judges ruled that the agency hadn't adequately analyzed how nitrogen-dioxide emissions from Shell's operations would affect people living on Alaska's North Slope.

Shell reacted furiously, calling the delay to its Arctic program "frustrating," "disappointing" and "irresponsible." Members of Congress

from Alaska have also blasted the decision.

Since then, Shell's relations with regulators have improved, especially after last Wednesday's White House meeting. Mr. Odum said it was attended by representatives of several of the federal agencies involved in the permitting process, including the EPA, and was "the strongest indication we've ever had of a coordinated government approach to start drilling in Alaska."

He said Shell presented the dates by which it needs certainty on permits in order to move ahead with its 2012 drilling plans, and "the agencies are reflecting on their ability to meet those dates."

"My confidence in the EPA delivering the permits has gone up considerably as a result [of the meeting]," Mr. Odum said.

An EPA spokesman said "we have worked with Shell to address the concerns raised by" the judges and that all of the relevant federal agencies "are ready to continue working with the company as they seek the appropriate permits for this project."

A senior administration official who attended the May 4 meeting said the White House often meets

with businesses or other groups that have questions or concerns about navigating the regulatory process. The meeting with Shell was convened to “facilitate the conversation” between the company and the government, she said. A decision on whether to grant Shell a new air permit will be made by the EPA, not the White House, she added. The EPA’s administrator, Lisa Jackson, testified before Congress in March that she expects the agency’s analysis of the project “will clearly show that there is no public health concern here.”

“We don’t prejudge or take a position on” Shell’s project,” the administration official said. But, she added, “we’re committed to increasing domestic oil and gas supply. This is a potential resource, and we’re going to look at it.”

Conservation groups worry about the devastation an oil spill could wreak on the pristine wilderness of the Arctic and say Shell lacks the ability to respond to an oil spill in such a remote and fragile location—a claim Shell denies.

“Shell doesn’t have its permits for the simple reason that its drilling plans don’t comply with the law,” said Rebecca Noblin, Alaska director of the Center for Biological Diversity, which has challenged Shell’s proposed project. “All the attention Shell is trying to focus on EPA is really just a diversion from the fundamental issue that there is no oil-spill-response capability in the Arctic, and without that capacity there is no way for Shell to lawfully go forward with its plans.”

Mr. Odum said Shell has put in place an immediate-response capability, fully staffed and fully equipped, to

deal with a 20,000 barrel-a-day spill in Alaska and also has state-of-the-art capping and containment systems on hand to cope with any discharge. The company has also emphasized that the reservoirs it is planning to drill in Alaska are in shallower waters—and at much lower pressures—than the BP well that blew out last year.