



Shell Exploration & Production Company

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March 29, 2010

The Honorable Donald Olson
Alaska State Senator
Room 514, State Capitol
Juneau, AK 99801

The Honorable Reggie Joule
Alaska State Representative
Room 502, State Capitol
Juneau, AK 99801

Subject: Senate Bill 4 and House Bill 74 -- An Act relating to the Alaska Coastal Management Program; and establishing the Alaska Coastal Policy Board.

Dear Senator Olson and Representative Joule:

In the two years since I came to Alaska to head Shell's business, I have shared with you our enthusiasm and genuine optimism for the oil and gas potential we see in the Chukchi and Beaufort Seas. We at Shell firmly believe oil and gas exploration and development activities in the Alaska Arctic will create thousands of jobs for Alaskans, including the residents of the North Slope, and generate billions in revenues. These potential developments will result in oil production that could last for 30 to 40 years, thereby extending the life of the Trans Alaska Pipeline and facilitating new, as yet unknown opportunities for additional hydrocarbon production. Most importantly, Shell as well as other industry participants believe that history will repeat itself and that the success industry had 20 years ago, drilling 35 exploration wells in the Beaufort and Chukchi Seas, will once again be achieved. These activities will unquestionably be conducted with the most technologically advanced, environmentally sensitive methods.

To date, Shell and several other world-class offshore companies have invested several billions of dollars just for the opportunity to explore for those resources. Billions have been spent on leases, specialized drilling equipment, baseline science, litigation, permitting and program modifications, including significant expenditures to accommodate local concerns (discussed further below). Shell's planned exploration drilling activities in 2010 alone will cost in excess of \$400 million, requiring more than 100 separate contracts, and as many as 700 people either employed or contracted. We see the real potential for the investment of billions more in future years.

Permit delays and overly restrictive limits are the single greatest risk to Shell's Alaska offshore exploration program.

This ACMP legislation places control of offshore activities in the hands of the local districts at almost every juncture – with much open-ended language and timeframes, subject to wide interpretation. In effect, it hands veto power over all oil and gas development to a local district that is officially opposed to offshore drilling. Regulatory uncertainty created by the proposed ACMP changes creates a powerful disincentive for Arctic exploration and development.

As an example, blackout dates for migrating bowhead whale cows with calves described in the North Slope Borough's draft District Enforceable Policies of May 10 - July 1 and August 1 - October 15 in effect end any chance of operating during the short open- water season. These restrictions are not even considered by the National Marine Fisheries Service, the agency responsible for protecting bowhead whales, because they are not necessary or supported by science. One needs to remember that over \$500 million in studies have been completed over the last three decades to support these initial exploration leases.

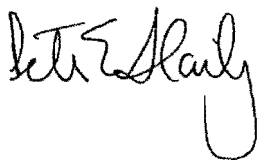
The requirement that all federal and state permits for exploration are final before beginning the ACMP process may effectively kill any attempt to drill an offshore well.

This bill allows districts, without the limitation of respecting the limits of state or federal law, to attach any stipulation they wish to offshore permits.

Once again, Shell is committed to working with local communities in the leasing and permitting processes and has a proven track record of taking steps necessary to address the concerns presented to us. The capital we have expended to date in pursuit of this project is an indication on our part of a desire to modify our program as a result of consultations that already exist in the permitting process. However, placing local districts in charge of whether permits are issued or lease sales are held places unprecedented control of projects that will have statewide and national impact into the hands of only a few individuals. Such an unprecedented transfer of power – from collective decision making to local control - would, have far-reaching impacts on Alaska and the nation.

Alaskans want to see more exploration drilling and new oil for TAPS. The governor, legislature and citizenry are all looking for ways to provide an incentive and encourage companies to explore. And Shell is attempting to conduct just such a multi-year multi-well program with potentially huge benefits for Alaskans. Passage of HB 74 or SB 4 would tremendously compromise our ability to achieve those objectives and put Alaska's future financial stability at risk. I hope this provides you with the reasoning behind Shell's inability to support this legislation.

Sincerely,

A handwritten signature in black ink, appearing to read "Pete Slaiby". The signature is fluid and cursive, with a large loop at the end.

Pete Slaiby
Vice President, Shell Alaska