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Energy

Shell leaves door open for future exploration in Alaska's Arctic

 Jennifer A. Dlouhy | [Houston Chronicle](#) | November 2, 2015

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Royal Dutch Shell's drilling rig, Polar Pioneer, in action in the Chukchi Sea. While the company has ended its exploration efforts in Alaska's Arctic "for the foreseeable future," it says it will retain its leases in the region and hasn't ruled out future efforts.

Royal Dutch Shell

WASHINGTON — Shell is walking away from oil exploration in Arctic waters north of Alaska, but it isn't ready to close the door completely.

Disappointing results from a critical test well at the company's Burger prospect in the Chukchi Sea, combined with the high costs of developing the region and an "unpredictable regulatory environment," have prompted Royal Dutch Shell to [cease Alaska offshore exploration](#) "for the foreseeable future," CEO Ben van Beurden told reporters Thursday.

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But the company so far isn't relinquishing its drilling rights in U.S. Arctic waters, including 275 leases in the Chukchi Sea — even though the Interior Department has [rejected Shell's bid to extend the duration of its Beaufort and Chukchi sea leases](#), which otherwise expire between 2017 and 2020.

In a statement released with [its third-quarter earnings Thursday](#), Shell said it is considering options for protecting the value of its assets in Alaska.

The company made a similar assertion in a Sept. 30 legal filing, when it insisted that while "Shell does not intend to undertake drilling activities in offshore Alaska in 2016, it is presently unclear what, if any, other activities may take place" in the future.

Van Beurden also suggested Shell wants to keep its options open in the U.S. Arctic.

"While Burger turned out to be uneconomic, there are of course other potential prospects in Shell's Chukchi leasehold as well as other areas offshore Alaska," van Beurden said in an earnings call.

Shell can appeal the Interior Department's decision, perhaps in hopes that a new president taking office in January 2017 would be more inclined to give the company more time. A similar dilemma



faces Statoil, which also made a failed bid to renew its oil and gas leases in the region. ConocoPhillips also has appealed its own rejection.

But holding on to the territory comes with a cost. Companies pay escalating annual rental payments for their oil and gas leases on the U.S. outer continental shelf.

If Shell does not relinquish its 275 leases in the Chukchi Sea, the company will have to pay more than \$40 million in rental payments between 2016 and 2020 to maintain them, according to an analysis by the conservation group Oceana.

"We certainly hope that whatever options Shell is considering, they don't involve continuing to put the Arctic Ocean at risk by sinking even more money and effort into its failed exploration program," said Michael LeVine, Pacific senior counsel for Oceana.

The issue is complicated by the frontier nature of oil and gas development along Alaska's northern coast. Shell viewed Burger as one of its biggest potential prizes in the Chukchi and Beaufort seas — a potential monster discovery that could anchor development from surrounding, smaller fields.



Without Burger, those smaller projects would be difficult to justify economically.

"We have other leaseholds, but they would depend on the critical mass of a central hub (such as) development of Burger," van Beurden said.

Shell spent more than \$7 billion pursuing oil in Arctic waters near Alaska, beginning with aggressive bidding in a government auction for Beaufort Sea drilling rights in 2005.

During its third quarter, Shell took about \$7.9 billion in write-offs, including some \$4.6 billion associated with a recently canceled oil sands project in Canada and its Alaska portfolio. In the third quarter, the post-tax Alaska write-off totals about \$2.6 billion and reflects sunk costs associated with contracts and wells.

Shell has said it will try to deploy many of its contracted or owned Arctic assets elsewhere, though some — such as a specialized oil spill containment barge — may have limited utility outside of Alaska.

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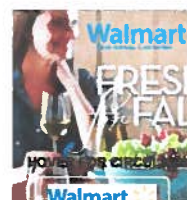
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