

Dave Lawrence Remarks - "Meet Alaska Energy Conference"

January 22, 2010 – Anchorage Alaska

Good morning,

It's great to be back in Alaska.

I joked the last time I was here that all of my previous trips to Alaska were somehow scheduled around the fishing season. I assured you *then* it was a coincidence...just as I assure you *now* that I have no idea how that first slide made the final cut.

(Picture of Dave with Kenai Classic King Salmon)

As a sidebar, I'm told it takes an average of 22 hours of fishing to catch a king on the Kenai? I don't mean to rub it in, but if that's true, it may take almost 39 hours to catch my next one.

I guess I'll have to come back more often.

GOOD THEATRE

Really, it is a privilege to be in your audience today. The Alliance has been an excellent friend to Shell, as have many of you. Paul, I especially appreciate the theme, "*Happy Days or Gone With The Wind?*"

Classics, both of them, but their titles obviously beg a question - one that not only applies to the oil industry in Alaska but also the entire country when it comes to energy supply and security.

If I had to answer it with another movie title, "*Insomnia*" comes to mind because, like many of you, how and where we explore for domestic energy to keep up with demand, fill an aging pipeline, or decrease our dependence on foreign sources of oil and gas, are questions that keep me up at night.

THE ENERGY TO KEEP GOING

On the subject of endless nights, I was last here in June and I talked about gaining access to Alaska's warehoused energy and not focusing on what *can't* be done in the Arctic, but rather what we – industry, special publics and leaders like yourselves, can accomplish *together*.

To a large degree, we still cannot control how much oil and gas we consume as a country or how quickly the market will shift to alternative energy sources. And despite conspiracy theories otherwise, we certainly have no control over price.

But we *can* control where we look for hydrocarbons, how safely and responsibly we do it and maybe most

importantly - how we tell the energy story to an audience that's not necessarily inclined to hear it.

At Shell we talk a great deal about the hard truths that define energy supply and demand, but I've come to realize another truth that we *all* need to own: on the subject of energy and the oil and gas industry, in particular, the world is increasingly made-up of aging fans and young skeptics.

Should we care that these audiences are growing farther apart?

I believe we must because the future of energy supply and security will be shaped as much by public opinion as by the availability of domestic energy sources.

SPACE TO GROW

And that leads me to some of the topics I'd like to touch on today – not the least of which includes jobs and revenue. Not just for the State of Alaska – but for an entire nation that stands to gain if industry is allowed space to grow. And by space I mean access to our own supplies of oil and gas – specifically, the oil and gas in the offshore that could replenish one pipeline and further enable another.

With that space and growth comes energy security – a natural balance of resource exploration,

development and production that ultimately leads to stability befitting of a Superpower.

There are challenges to getting there and I think Shell's venture in Alaska is strong evidence of that. But I also think our progress is becoming a strong *example* of the hurdles we *can* overcome by working together, leveraging our fans, and engaging with our skeptics.

OUR REPUTATION PRECEDES US

So, who are these people and where do we find them? I'm positive I know the answer to that.

Or not.

It's likely some of our fans know our business better than most. They stood in line for gasoline in the 1970's and they grow corn for food – not fuel. They used to hold stock in companies like Humble Oil and SOHIO. They did chores around the house not for pay, but for the privilege of living at home one more day. It's possible our aging fans have children who are now engineers and geologists - some of whom work for Shell.

At least a few of our skeptics went to 7-Eleven for a 98-cent Big Gulp and spent 89-cents on a gallon of gas before they left the parking lot. They lived through wars that, in their minds, were fought over oil.

Our skeptics know well the story of the Exxon Valdez and every time they hear an oil company claim they can “do it right” they use Google to try to prove otherwise.

While we may think we can easily define our supporters and detractors, the profiles I just read could very easily be flipped. Maybe the aging fan took a beating on SOHIO stock, or doesn't want drilling in their backyard and the young skeptic wants to drill for more oil in hopes of keeping gas prices low or finding a job.

And that's the point.

As diverse as they are, our fans *and* our skeptics are, at the end of the day, *Americans who want* to work and want even better opportunities for their kids. How we get there is the space in-between that leaves room for healthy debate.

THE NUMBERS ADD UP

For our part, industry is doing what we can to create jobs and add value. Currently, the oil and gas industry directly employs 9-million Americans. The economic contribution of the oil and gas industry was nearly a Trillion dollars last year, or nearly 7-percent of the U.S. gross domestic product.

I realize I'm quoting to you part of the elevator speech we in the industry use to pump ourselves up. But I'm OK with that because it's a meaningful contribution to our country and no one can claim we don't pull our own weight.

On the subject of numbers, I know many of you are familiar with Shell's story in Alaska and the economic study completed last year that estimates success in the Alaska offshore could lead to an annual average of 35-thousand direct and indirect jobs in this state alone.

Still, after 3-years and 3-plus billion dollars invested, we remain high-centered. Your Governor, your congressional delegation and your Legislature are working hard to help navigate permitting issues but they can't do it alone. I know for a fact how difficult it is right now to gain the attention of a Senator or Congressman in D.C. because of the ongoing effort to wrap-up the healthcare debate and the next effort to address the deficit and unemployment. On those last two topics, industry can play a role. But we must be diligent in our message – we believe that development of the oil and gas in Alaska is a critical part of the future energy supply and economic growth of the US.

Deleted:

A HEALTHY DEBATE

Against that political backdrop, it's my opinion, the optic in our country right now should broaden considerably.

On the heels of double-digit unemployment and a growing reliance on foreign oil, it's frankly difficult to reconcile why the creation of tens-of-thousands of industry jobs is not part of the national dialogue as our leaders debate plans to improve the health of our country.

A healthy nation is one fueled by the desire to work and be independent. It's a quality Americans have shown in excess.

When given the chance.

SHELL'S GAME

Four years after Shell first purchased leases in the Alaska Outer Continental Shelf, Americans are still waiting for the prosperity that would surely result from offshore exploration and development in the Arctic.

In that same time span, we have drilled about 400 exploration and appraisal wells elsewhere in the world, in places as diverse as offshore Norway and the Caspian Sea, the northwest coast of Australia and the deepwaters of Malaysia, Nigeria, and the Gulf of Mexico. Of those wells, more than 225 have been successful. Just as important as this success is the

fact that we have drilled those with minimal impact on the environment.

In the 35 wells that have been drilled in the Chukchi and Beaufort seas, a total of 26 barrels of oil have been spilled, 24 of which were completely recovered. We work very hard to run a clean, safe and energy efficient business.

With acknowledgment to the challenging natural forces that exist off Alaska's North Slope, political roadblocks and a disjointed permitting process have proven formidable to Shell's plans for responsible exploration.

And far more costly.

As of today, what should be a strait-forward air discharge permit for Shell's single drilling ship threatens to cancel yet another drilling season in Alaska and delay for at least another year the creation of jobs and domestic energy our Nation so desperately needs.

While the cost of inaction to Shell can be measured in billions, the cost to Americans is much higher.

So what's the answer?

If I had a magic wand and an equally charmed checkbook, I would start by fully funding permitting

agencies - hold them to timelines and stand by the decisions previously made to grant access to potential oil and gas basins – especially the offshore and especially right now – at a time when the U.S. is importing nearly 65-percent of the oil we consume on a daily basis.

THE COST OF DOING NOTHING

Environmental concerns about domestic resource development get plenty of headlines these days but the story we don't often read about is the social and economic impact of *not* developing our resources.

If Alaska and currently restricted onshore and offshore areas remain out of the mix, the National Association of Regulatory Utility Commissioners estimates that the energy cost to consumers will *increase* by an average of 5-percent per year for the next 20-years – in that same time, real disposable income will *decrease* on an annual average of \$4-thousand dollars per capita. And by the year 2030, employment in energy-intensive industries will have decreased by nearly 12-million jobs.

The point is that there is a real *cost* to the energy we import - in the form of jobs and income. Not to mention the roughly \$400-billion dollars a year we actually spend on imported oil – leading to the largest single cash transfer in the history of the modern world.

Tipping that trade imbalance back in favor of the US means using *our* workers to explore and develop *our* resources for consumption in this country.

It also means being creative. Because at the end of the day it's not just about oil, it's about energy – in all forms. Energy drives economies – energy transforms the status of entire countries – and energy means jobs.

GOT GAS?

I don't have to tell this audience about Alaska's vast oil and natural gas potential. The US MMS sees resources exceeding 48 billion barrels of oil equivalent. For what it's worth, stories about the abundant resources in Alaska appear as frequently in the Houston Chronicle as they do in the Anchorage Daily News.

I will tell you, I've been in several conversations lately about the necessity of harnessing Alaska's resources in light of new shale gas discoveries across the country. If you've followed the gas story you know that, because of new technology that allows us to extract gas from the pores of shale rock, the US now has potential resources of somewhere around 1000 TCF of natural gas – enough to power the entire country for the next 100 years. The combination of natural gas from Alaska and the Lower 48 states

brings the US into Major Resource Holder status with a resource potential that is approximately equivalent to Saudi Arabia's oil reserves.

I will acknowledge that tapping these vast gas reserves will require significant work by the industry. For both shale gas and tight gas, there are above-ground issues that need to be dealt with including access, compensation and education on the process used to extract that gas. You all know the challenges we face here in Alaska...

But my point is these gas resources do *exist* and we're finding more every day. In fact, nearly 30-years of gas supply has been discovered in just the last 3-years. That's how quickly natural gas has become a centerpiece in most any conversation about energy supply. And if it isn't, it should be. Why – it's clean – with half the CO₂ of coal, and abundant.

DRIVING GAS DEMAND

Because of the extensive gas reserves, the US is now in position to make a continental shift in the way we look at gas supply *and* consumption. The argument could have been made, even 5 years ago, that transforming the energy grid to make way for gas could have landed us in the very position we find ourselves today, potentially reducing our future dependence foreign oil.

With the right support, this new stable gas supply can be used to drive a change in the make-up of US energy demand. Not only does natural gas provide a long-term, domestic energy source, but gas also offers two additional key benefits that should appeal to both our fans and our skeptics.

First, gas is cleaner alternative to its predecessors, with half the CO₂ generated of coal and a smaller overall footprint needed for developing the resources.

Second, and let's face it, is an issue that's critical to most of us here today, is jobs. An IHS Global Energy study found that, in 2008, nearly 3 million people worked in jobs attributable to the natural gas industry. These natural gas jobs added 180 billion dollars in labor income alone to the US economy. And, in a time when the number of jobs in many other industries have been declining, natural gas jobs increased by 17% from 2006-2008. These positive impacts of natural gas should appeal to both our fans and our skeptics.

I think that now, with the gas supply no longer in question, the reduced-emissions, and the undeniable positive economic impact, consumers, given the choice, will increasingly continue to choose gas. But it is not just you and me that will drive the shift to gas. The stable supply of gas will drive businesses and industries toward gas. If hospitals, power plants, steel mills and even the transportation sector can make

long-term commitments to gas, it will eventually lead to more users, stable prices, and more jobs.

CHALLENGING TIMES

But in order to drive the switch to gas, we must find that gas first. And to do so, we need to be allowed to execute our Exploration program. To find and assess oil and gas, we need the space to operate. In the past, I've talked about the challenges to our program that exist in the regulatory world and they are very real. Navigating the air emissions permit process through EPA is something that has proven difficult, but *we are making progress*.

Right now I sense that there is a tremendous power play taking place over who exactly will govern industry activities in the Arctic.

Will it be the Administration?

Regulators?

The Courts?

To date we've taken directives from all of them, but with no clear indication of what the next year will bring, or even the next month.

While our activities in the Arctic may be delayed by this power struggle, I believe that we must continue to

engage both our fans and our skeptics and get our message out – developing America’s resources will create a more stable energy supply, is better for the environment, stimulates the economy, and creates jobs.

MOTIONS FOR THE OCEAN

In November, the White House released an Interim report from the Inter-agency Ocean Policy Task Force – a body charged with, among other things, recommending a national policy that ensures protection, maintenance, and restoration of oceans.

On the surface, the report seems fine.

But a troubling aspect of both the group’s mission and their interim report is the lack of a single mention of energy or any other economic use for the oceans. Without users, what exactly are we protecting our oceans from? And who then will be charged with maintaining and restoring them? There are multiple legitimate users of the oceans, not the least of which are fishermen – for example – and the best policy is one which recognizes all legitimate users of mutual resources and how that can best be managed.

Let’s say you’re against oil and gas development in the offshore but you’re heavily in favor of ocean-based wind-turbines or harnessing tidal energy.

No mention of that in the report.

Clearly, as in all-things-Arctic, balance is needed. But as of now, the interim report's priority objectives do not reflect the economic goals that ought to help guide a national oceans policy as well as a national energy policy.

It's my view that the many potential uses of the ocean should be *acknowledged* and managed in a way that balances competing uses while preserving and protecting the integrity of the ocean and coastal environments - any new national policy should be developed to coordinate the activities that currently take place without completely reorganizing ocean governance.

If it seems like I'm making a mountain out of the interim report it's because there's no telling which task-force report, court ruling or critical habitat recommendation will ultimately define how we work in the Arctic.

Or, how we don't work at all.

TRENDING UP

Having said that, I don't want to leave you thinking we aren't closer to our goal of working in the Arctic, because I believe we are.

If you just read the headlines, then you know that the last year got off to a rocky start with the cancellation of another drilling season followed by a Court ruling that put our Chukchi investment in limbo. Since then, some court rulings have gone our way and our Plans of exploration for the Chukchi and Beaufort have both been approved – no small feat.

But in-between those headline events, as so frequently happens, lies the real story. Because that's when Alaskans, some of them our aging fans, lined up for the privilege of telling Secretary Salazar how they felt about offshore drilling.

That's when Shell employees spent week, after week, after week, visiting North Slope communities to talk about our plans and engage with our fans and our skeptics, both young *and* old. These approvals demonstrate what we can achieve working together.

ALL POLITICS ARE LOCAL

Last June I made the case that dialogue over the future of the Arctic should take place in town halls and assembly chambers – not Courtrooms or Congress.

I would like to acknowledge North Slope Borough Mayor Edward Itta's effort to do the same. In no way do I want to portray that the Mayor and Borough residents don't still have a wide range of concerns about offshore drilling, but by not participating in the

recent lawsuits against our Plans, we can continue that dialogue and focus *all* of our energies on what we *can* accomplish...together.

I also want to pass along a heartfelt, "Thank You" to all of you who did take the time to submit comments to Secretary Salazar in favor of OCS development. The unofficial count is nearly 3-to-1 in *favor* of drilling, and therefore, in favor of allowing Alaska to contribute to the future energy supply and security of the nation. 3-to1, for some reason they have not published those numbers.

I can't tell you *why*.

Maybe they're afraid we'll Google it.

Thank you.