

# THE TICKING TIMELINE

**Joe White and the Arctic team at Houston-based Endeavor Management, which is advising Shell on its Arctic campaign, report on a problematic start to 2015 exploration in US Arctic waters**

Industry continues moving forward with planned exploration programs and necessary preparations continuing for the industry to re-enter US Arctic waters in 2015. However, the reentry date is elusive, difficult to pin down, and is not within industry's control. This date rests solely with the US Courts and their efforts to resolve the case before it against the Department of Interior (DOI).

US Courts are not alone in controlling US Arctic OCS exploration in 2015. Nature sets the date that ice returns to areas with drilling prospects, the 2015 working window for companies to complete exploration activities and exit the region, and the date industry can return for further operations in 2016. Therefore, the decision date for moving assets into position to support drilling activities is in the crosshairs of two separate and distinct entities, neither of which is under industry's control.

Regardless of the uncertainty, preparations must be made if exploration is to resume in 2015. Industry continues to plan and prepare so as not to lose another full year before continuing activities on submitted exploration plans. But, these plans are now on hold, in flux, and being updated as regulators modify requirements following the Macondo incident in the Gulf of Mexico.

Regulators remain active and busy, developing new rules and regulations to be applied to future Arctic OCS exploration programs. According to local newspaper articles, updated plans are to be submitted for approval before further exploration can occur. This activity must continue in parallel with preparation activities.

The end game remains the same for all entities - Industry, Regulators, and



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the Court: return to Arctic exploration. Working independently of each other, each entity is aware of the impact their decisions and actions will have on the renewal of exploration in US Arctic waters.

All of this activity is occurring while potential operators and leaseholders sit in a holding pattern, awaiting the final resolution of these separate outcomes and watching expectantly for drilling success. Only after running the tightened regulatory gauntlet and overcoming the extreme operational challenges by one operator will multiple additional operators join the search for new Arctic reserves.

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In the background of this domestic activity, US government sanctions imposed on Russia for their activities in the Ukrainian conflict are impacting Russia's Arctic exploration and production operations. According to Reuters, Rosneft has an estimated 300 billion barrels of reserves in 44 offshore deposits in the Arctic and the Black Sea. The company had planned to develop the deposits with Exxon, Royal Dutch Shell, ENI, and Statoil but the Western companies' involvement in Russian exploration activities has been directly affected by recent US government-imposed sanctions.

Last month Exxon received a reprieve from the US Treasury Department delaying sanction implementation to October 10 from September 26. This extension allowed Exxon to safely halt the Universitetskaya-1 well's drilling operation with Rosneft in the Kara Sea,



Industry, regulators and the Courts are working on a return to the Arctic

protect the sensitive environment, and properly seal the well until the sanctions are lifted. Rosneft estimates that the Universitetskaya structure could hold up to 9 billion barrels of oil. Over the next four years, Rosneft and Exxon had plans to drill up to 40 wells in the Arctic. These additional tests will now have to wait for the political storm to pass.

## What to expect next

Crystal balls today are much more cloudy than usual on oil and gas exploration and production. The fact remains, however, that the world still needs oil and gas and the products derived from it, or civilization as we know it will change radically. The Arctic OCS by most available indicators still holds a large share of the world's untapped reserves of oil and gas. It remains untapped because of the harsh environment, limited infrastructure, and extensive logistical support structure that must be created before each approved drilling season.

If drilling activities in US Arctic OCS waters resume as planned for 2015 and are successful, development will be delayed for a few years. Technology and equipment must be developed and built to extract the reserves from icy Arctic depths in a safe and environmentally sensitive manner, and then transport the liquids to refineries for processing and distribution.

Meanwhile, those individuals with past knowledge of the Arctic OCS, oil exploration and production activities, and their respective challenges, continue to age. With each passing year of inactivity many more of industry's Arctic veterans will have retired or passed on, leaving an experience void that will have to be rebuilt. The industry will likely have to relearn some tough lessons through avoidable errors that these veterans have already overcome. Continued delay only compounds the challenging task of developing our Arctic reserves. **FE**

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