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Shell spending billions to boost natural-gas development

By Shawn McCarthy

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CEO plays down environmental protests over sites in B.C. and New York

Royal Dutch Shell PLC is betting big on a global shale gas "revolution" and will soon be producing more natural gas than crude oil as it develops properties in Canada, the United States and China.

In the next few years, the international oil company expects to more than triple its production of gas in North America, despite the current glut of gas on the market, Shell chief executive officer Peter Voser said in an interview Monday.

"And we could have more if we want to do so, depending on prices and markets," Mr. Voser said after delivering a speech to the World Energy Congress, a meeting of energy executives and politicians.

The company plans to spend up to \$4-billion in the next few years to develop its Groundbirch property in northeastern British Columbia, and the Marcellus properties in Pennsylvania and New York state that it acquired from East Resources Inc. in a \$4.7-billion (U.S.) deal that closed this summer.

"We will be more gas than oil by 2012," Mr. Voser said, referring to Shell's production in terms of barrels-of-oil equivalent.

On that basis, the company will see natural gas grow to roughly 58 per cent of its production volume by the end of the decade, from 48 per cent currently.

Mr. Voser acknowledged that North American gas prices are depressed but said the market will move into better balance in the longer term. He expects demand for natural gas to climb as energy consumers - particularly in the power sector - get used to the idea of the abundant supply of gas, as well as its low price and environmental benefits. Globally, he forecast that natural-gas consumption will grow by 25 per cent by 2020 - twice the growth rate of oil.

But it is critical, he said, for governments to impose a price on carbon-dioxide emissions to create incentives for consumers to invest in lower-emitting fuels like natural gas.

While governments have promised some form of carbon prices, the effort in North America has stalled after the U.S. Congress failed to pass a climate bill, and the Canadian government waits to follow the American lead.

The Shell executive extolled the virtues of natural gas and its environmental benefits on a day when the U.S. Environmental Protection Agency (EPA) held a public hearing in New York state about the impact of shale gas drilling on local water systems.

Environmental groups and some landowners have complained the oil companies are threatening water supplies

through the use of hydraulic fracturing, which uses high-pressure, chemically-laced water to crack the shale rock and free the gas.

New York state has essentially prohibited the development of shale gas while it studies the issue, a ban that includes properties Shell acquired from East Resources.

The EPA has in the past said there is no evidence that hydraulic fracturing has contaminated ground water, but there have been documented cases of surface pollution and of methane contaminating well water as a result of nearby drilling operations.

Shell also faces protests over its plan to develop coal-bed methane resources in northwestern British Columbia, in the area know as a Sacred Headwaters, which feeds the Skeena, Nass and Stikine Rivers.

Mr. Voser said the company is used to dealing with environmental concerns, and does not expect the protests to seriously impede the development of shale gas or other unconventional gas resources.

In his speech, the Shell CEO acknowledged that most energy development entails risks and that "things sometimes can and do go wrong" - a clear reference to BP PLC's disastrous blowout in the Gulf of Mexico.

"But let's remember that energy is the lifeblood of civilization," he said in his speech.

"Whether we like it or not, producing energy and delivering it to billions of customers around the world comes with certain risks."


He said the industry has to manage the risks as effectively as possible.

North America is far ahead of the rest of the world in developing unconventional gas reserves, but Mr. Voser said he expects significant growth in Australia, in China and eventually in Europe and South Africa.

But he said the surge in unconventional supply will delay development of Arctic gas and the pipelines required to bring that fuel from the Alaska and Canadian offshore.

"There will be natural gas [developed] in the Arctic but you are most probably talking quite long term now. But I think it will be developed over time."

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