



## Shell's suspension of offshore drilling in Arctic Ocean removes domestic oil source

ANCHORAGE, Alaska (AP) — An effort to give the United States a new source of domestic oil and refill the trans-Alaska pipeline took a hit Wednesday when Royal Dutch Shell PLC announced it will suspend offshore petroleum drilling in the Arctic Ocean for 2013.

Shell drilled last year in both the Chukchi Sea off Alaska's northwest coast and in the Beaufort Sea off the state's north coast.

But problems before and after drilling, culminating with the grounding of one of Shell's two drill ships, left in doubt whether the company could make repairs in time to drill in 2013. Shell Oil President Marvin Odum answered that question with the announcement that the company would "pause" exploration to prepare equipment and vessels for drilling in the future.

"We've made progress in Alaska, but this is a long-term program that we are pursuing in a safe and measured way," Odum said. "Our decision to pause in 2013 will give us time to ensure the readiness of all our equipment and people following the drilling season in 2012."

Environmental groups bitterly oppose Arctic drilling in the rich ecosystem that supports endangered whales, polar bears, walrus and ice seals. They claim not enough is known about drilling's effects on an ecosystem already being hammered by climate change, with summer sea ice continuing to be lost on a record pace.

They also say oil companies have not demonstrated the ability to clean up a petroleum spill in ice-choked waters.

"This is the first good decision we've seen from Shell," said Mike LeVine, an Alaska spokesman for Oceana, a conservation group. "Given the disastrous 2012 season, our government agencies must take advantage of this opportunity to reassess the way decisions are made about our ocean resources and to reconsider the commitment to explore for oil in the Arctic Ocean."

The U.S. Geological Survey estimates that 26.6 billion barrels of recoverable oil and 130 trillion cubic feet of natural gas exist below Arctic waters. The vast underwater reservoirs could be linked to shore by underwater pipelines and then overland to the trans-Alaska pipeline.

Shell in 2008 spent \$2.1 billion on petroleum leases in the Chukchi Sea and estimates that it has spent \$5 billion on Arctic drilling.

Shell contends that it can drill safely, its two drill ships completed top-hole drilling on two wells last year, but the company was bedeviled by problems in 2012.

The company's spill response plan



required that a response barge be on site before drill bits dug into petroleum-bearing zones. That never happened. A key piece of equipment, a containment dome, was damaged in testing off the Washington coast.

Seasonal ice in the Chukchi Sea delayed Shell vessels from moving north. When Chukchi drilling began Sept. 9, a major ice floe forced Shell's drill ship off a prospect less than 24 hours later.

When the drilling season ended, the Coast Guard announced that it had found 16 safety violations on the Noble Discoverer, which drilled in the Chukchi, when it docked in Seward, Alaska. The Coast Guard said last week that it has turned its investigation of the vessel over to the U.S. Department of Justice.

The problems crested in late December when the Kulluk, a circular barge with a diameter as long as nearly three basketball courts, broke away from its towing vessel on its way to a shipyard in Washington state.

The Kulluk on New Year's Eve ran aground off a remote Alaska Island near Kodiak Island. It was pulled off six days later but requires repairs. The Kulluk left under tow Tuesday for the Aleutians Island port of Dutch Harbor, where it will be loaded onto another vessel for transport to a shipyard in Asia. The Noble Discoverer also will undergo maintenance and repairs in Asia.

Shell's spill response plan calls for two drill ships to be in the Arctic so that if one is damaged in a blowout, the other could drill a relief well.

After the Kulluk was refloated, Interior Secretary Ken Salazar announced that his department would perform an "expedited, high-level assessment" of the summer drilling season. Salazar said the review would pay special attention to challenges that Shell encountered with the Kulluk, with the Noble Discoverer and with the company's oil spill response barge.

The Interior Department oversees offshore drilling permits, and Salazar said drilling in frontier areas such as the Arctic demand a higher level of scrutiny.

The Coast Guard also is reviewing the Kulluk grounding. Rear Adm. Thomas Ostebo said the investigation will look at every aspect of the incident, from possible failure of materials to evidence of misconduct, inattention or negligence.

Shell has said the grounding was a maritime transport problem. Drilling in 2012, Odum said Wednesday, was completed safely.

"Shell remains committed to building an Arctic exploration program that provides confidence to stakeholders and regulators, and meets the high standards the company applies to its operations around the world," Odum said. "We continue to believe that a measured and responsible pace, especially in the exploration phase, fits best in this remote area."

Shell Alaska spokesman Curtis Smith said drilling could resume in 2014.

"It's possible, depending on the result of ongoing reviews and the readiness of our rigs, and frankly the confidence that lessons learned from our 2012 drilling program have been fully incorporated."

Alaska U.S. Sen. Lisa Murkowski, who is gearing up for confirmation hearings next month on Salazar's announced replacement, Sally Jewell, said Shell's decision to postpone exploratory drilling program shows that the company is committed to safety.

"This pause — and it is only a pause in a multi-year drilling program that will ultimately provide great benefits both to the state of Alaska and the nation as a whole — is necessary for Shell to repair its ships and make the necessary updates to its exploration plans that will ensure a safe return to exploration soon," Murkowski said.

## State Department raises no objections to Keystone pipeline

WASHINGTON (AP) — The State Department on Friday raised no major objections to the Keystone XL oil pipeline and said other options to get the oil from Canada to Gulf Coast refineries are worse for climate change.

But the latest environmental review stops short of recommending whether the project should be approved. State Department approval of the 1,700-mile pipeline is needed because it crosses a U.S. border.

The lengthy report says Canadian tar sands are likely to be developed, regardless of whether the U.S. approves Keystone XL, which would carry oil from western Canada to refineries in Texas.

The report acknowledges that development of tar sands in Alberta would create greenhouse gases but makes clear that other methods to transport the oil — including rail, trucks and barges — also pose a risk to the environment.

The State Department was required to conduct a new environmental analysis after the pipeline's operator, Calgary-based TransCanada, changed the project's route through Nebraska. The Obama administration blocked the project last year because of concerns that the original route would have jeopardized environmentally sensitive land.

The pipeline plan has become a flashpoint in the U.S. debate over climate change. Republicans and business and labor groups have urged the Obama administration to approve the pipeline as a source of much-needed jobs and a step toward North American energy independence.

Environmental groups have been pressuring President Barack Obama to reject the pipeline, saying it would carry "dirty oil" that contributes to global warming. They also worry about a spill.

The draft report begins a 45-day comment period, after which the State Department will issue a final environmental report before Secretary of State John Kerry makes a recommendation about whether the pipeline is in the national interest.

Kerry has promised a "fair and transparent" review of the plan and said he hopes to decide on the project in the "near term." Most observers do not expect a decision until summer at the earliest.

## Oil prices drop to \$90

NEW YORK (AP) — Oil fell Friday to its lowest level of the year on worrisome economic developments in the world's two largest oil-consuming nations.

Oil dropped close to \$90 a barrel as the prospect of U.S. government spending cuts raised concerns about oil demand in the world's leading economy. In addition China's manufacturing grew at its weakest rate in five months in February.

The price of crude fell 1.5 percent and is down 6 percent in two weeks.

Benchmark crude for April delivery fell \$1.37 to close at \$90.68 a barrel on the New York Mercantile Exchange. Oil last closed below \$91 in New York on Dec. 28.

While there have been signs of an improving U.S. economy in recent weeks, attention Friday was focused on the increasing likelihood that about \$85 billion in spending cuts could start taking effect later in the day as part of an earlier budget agreement between the White House and Congress.

The International Monetary Fund has predicted that the spending cuts could reduce U.S. growth by some 0.5 percentage point in 2013.

In China two surveys showed that manufacturing growth slowed last month, as demand faltered and factories shut down for the Lunar New Year holiday.

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