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## UPDATE: Shell's Flagship Field Feels Pain Of US Drilling Ban

(Adds detail, background.)

LONDON (Dow Jones)--Royal Dutch Shell PLC (RDSB) said Thursday its flagship deep water field in the Gulf of Mexico, Perdido, has been shut down since April because of the U.S. drilling moratorium and will only resume production at a slower than expected rate in October.

Perdido's shutdown, less than a month after it started production to great fanfare, is a stark illustration of the impact of the U.S. ban on deep water drilling following the blowout and oil spill from BP PLC's (BP) Macondo well.

Perdido was expected to produce 100,000 barrels a day of oil, enough to meet the energy needs of 2.2 million U.S. households, but will now reach that target much more slowly than expected.

Shell had hailed Perdido as opening up a new frontier in deep water oil production.

"It is the most technologically-advanced facility in the world," being further offshore and in deeper water than any other field, said Tyler Priest, oil historian and professor at the University of Houston at the field's launch in March. It sits on top of a giant floating steel cylinder designed to stay upright even in powerful hurricanes.

However, the ban has prevented Shell from drilling essential production wells connected to the Perdido platform, said Chief Financial Officer Simon Henry in a conference call with reporters. The company has also had to idle seven drilling rigs in the region and write off \$56 million in its second quarter results because of the moratorium, he said.

Despite not being able to use the deep-water rigs, which can cost around \$500,000 a day to lease, Shell has no plans to put them to work elsewhere, said Henry.

"A six-month moratorium is too short to make it economically attractive to move the rigs," he said, adding that in some cases Shell has been able to negotiate a 60-70% reduction in the daily cost of leasing the rigs.

The Obama administration ordered the six-month moratorium on drilling in deep water following the explosion aboard the Transocean Ltd. (RIG) drilling platform Deepwater Horizon on April 20. The blast killed 11 men and triggered the worst oil spill in U.S. history as an estimated 4 million barrels fouled the Gulf of Mexico.

The ban has been condemned by many people in the oil industry as an over reaction that threatens thousands of jobs and the earnings of countless businesses that depend on the region's oil industry.

The initial moratorium, announced May 27, was overruled by a federal judge in June following a legal challenge from a number of oil services companies. The Obama administration responded by issuing a new moratorium July 13.

The moratorium is intended to pause deep water drilling until investigations into the cause of the Deepwater Horizon blast are published this fall. BP's own internal investigation will issue preliminary findings at the end of August.

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