



Copyright © 2015 [Energy Intelligence Group](#). All rights reserved. Unauthorized access or electronic forwarding, even for internal use, is prohibited.

WED, APR 1, 2015

How Badly Could Groningen Quakes Shake Shell, Exxon?

Royal Dutch Shell and Exxon Mobil are staring at a multi-billion dollar lawsuit due to earthquakes caused by gas extraction activities at their Groningen field in the Netherlands. Groningen is Europe's largest conventional gas field and a prized asset for both Shell and Exxon. Forced cutbacks in Groningen output -- or even cessation of production altogether -- as well as legal costs could hurt the bottom line for both companies, while the reputational damage for two majors supposedly fixated on safety of operations could sting further.

Shell and Exxon could be liable for an estimated £3 billion (\$4.5 billion) in compensation to claimants in a class action lawsuit for losses to the value of their homes as a result of earthquakes caused by Groningen gas production, says a British lawyer who has locked horns with Shell in the past but is not involved in this case.

Groningen is operated and 60% owned by NAM, a 50-50 joint venture between Shell and Exxon, with the other 40% held by Dutch state holding EBN. Production was raised significantly from 47.2 billion cubic meters in 2012 to 53.2 Bcm in 2013 before a cap of 42.5 Bcm was imposed for 2014. Ongoing production has brought with it earthquakes. The strongest in the area -- measuring 3.6 on the Richter scale -- was recorded on August 2012, with one of 2.8 recorded on Dec. 30, 2014, another of 2.7 on Jan. 6, 2015 plus a 2.3 on Feb. 25. The most recent in the area was a 1.2 magnitude in the early hours of Mar. 25.

Seismic activity at Groningen over several years has led the Dutch authorities to curtail production and has also led to court cases against NAM and the government. What's more, a report last month by the Dutch Safety Board (OVV) said that NAM and the Dutch authorities ignored safety concerns, viewing "the earthquakes as a risk of causing minor damage that could simply be compensated."

Eight hundred and fifty homeowners and 12 housing groups -- accounting for a total of almost 100,000 houses over the field -- filed a class-action suit in mid-2014 against NAM for earthquake-related subsidence. Their broad view is that their homes are so blighted that owners cannot sell easily and that the proper value of properties should be reimbursed. A proposed €1.2 billion (\$1.6 billion) government compensation package to build earthquake-proof homes and/or repair structural damage is viewed as insufficient.

Pieter Huitema from law firm De Haan, which represents the claimants, says he is currently studying NAM's written submission to the court. He told *EI Finance* that NAM denies there is any loss of value of the houses and refuses to compensate. "We think that they'll be better off to do so, because the financial damage for NAM and Shell will be bigger when there will be a verdict from the court," he said. A court date looks likely to be in September and although Huitema said he has several figures in mind for the value of compensation, he did not disclose them to EIF. A NAM spokesperson said "we'd first like to see how that [court case] develops," adding it's far too early to elaborate on the financials.

However, Martyn Day from UK law firm Leigh Day, who earlier in the year settled a class action suit against Shell on behalf of Nigerian victims of oil spills in the Niger Delta, reckons that a compensation figure could be in the region of £3 billion. He explained that his assumption is based on average house prices in the Netherlands being broadly in range with the UK, at about £300,000. Assuming 10% for the loss of value -- in some areas houses will be less blighted than 10%, and some considerably more than 10%, but 10% would be a good average figure, he thinks --

that amounts to £30,000 per claimant, which is multiplied by 100,000. "That's reasonably serious potatoes," he said.

Day concedes that the Dutch legal system works differently than the UK's, but reckons there is a high likelihood of a compensation agreement. That's because it's difficult to dispute the occurrence of the tremors or the damage they are causing. In addition, it's not hard for an independent appraiser to assess the value of the properties using this knowledge, so it's possible to gather information relatively quickly to come up with a definable loss. "With something as tangible as this, certainly here [in the UK] you would have a good case. You are not allowed to start damaging somebody's property like this without having to pay," said Day.

Bolstering the legal case against NAM is a recent report from OVV that said that Shell, Exxon and the Dutch government "failed to act with due care for citizen safety in Groningen with regard to earthquakes caused by gas extraction" before 2013 ([WGI Feb.25'15](#)).

NAM, for its part, said that the safety features of a total of 15,000 homes will have been inspected by the end of 2015 and it will be putting in place additional safety measures for 8,000 homes over the next two years. Nevertheless, Economic Minister Henk Kamp has ordered NAM to cap Groningen production at 16.5 Bcm in the first half of 2015 and said the full-year cap may be 35 Bcm -- which would be down 18% from 2014. He said people no longer feel safe in their own homes.

Lower Groningen output would not only hurt Exxon and Shell's global gas sales, but also cut into cash flow at a time when the majors are struggling with low oil prices. Exxon has credited the Groningen curtailments -- alongside price-related reductions in North American gas volumes -- as bringing about a 2% annual average decline in its worldwide gas output in 2015 and in 2016 ([EIF Mar.4'15](#)).

Groningen is often overlooked by investors but is Exxon's "single most valuable asset" in terms of its contribution to Exxon's net asset value, according to Wolfe Research analyst Paul Sankey. Wolfe figures the asset carries a risk value of roughly \$15.8 billion and translates to 4.1% of Exxon's enterprise value. For Shell, JP Morgan Cazenove lists Groningen output as a key factor that may affect the firm's results in the first quarter. The analysts estimate that Groningen gas output accounted for 6% of Shell's 2014 production. The field enjoys low cash costs and is high-margin output. Jason Kenney, an analyst with Santander, reckons that the case could be "potentially bruising" for Shell, while noting that there will likely be a long process before any money is actually paid out.

Another court action involving about 200 individuals was launched last month against both NAM and the government on behalf of the residents claiming mental suffering. Huitema said that NAM and the government have to respond within several weeks. In the end, Shell and Exxon may face a far greater loss: On Apr. 1 the highest general administrative court in the Netherlands will hear a case brought against Economic Minister Henk Kamp on whether gas production from the Groningen field should be stopped entirely.

Netherlands' Contribution to Royal Dutch Shell (and Exxon Mobil) Production		
	Shell	Exxon
Netherlands Net Gas (Bcm)*	16.46	†
In '000 boe/d	265.10	†
Group Worldwide Net Oil and Gas in '000 boe/d	3,080	3,969
Netherlands, as % of Total	8.6%	6.7%

*Includes Groningen 30% net share of 12.75 Bcm in 2014 (Groningen at 100% in 2014 was 42.5 Bcm).

†Exxon does not disclose Netherlands figures, but a similar figure to Shell's is assumed (both are equal partners in NAM).

Source: Company and official data

