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Drilling our way out of rising oil prices
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Oil Exporters Are Unable To Keep Up With Demand
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Are Energy Markets In For Storm-Tossed Season?
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MMS Extends Evaluation Period for Central GOM Sale
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US MMS releases proposed OCS oil, gas lease revenue-sharing rules
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Methane Poses Climate Risk, Energy Opportunity
Wired, May 29, 2008; http://www.wired.com/science/planetearth/news/2008/05/methane

Rebuffing The Rockefellers
The Washington Post, May 29, 2008; http://www.washingtonpost.com/wp-dyn/content/article/2008/05/28/AR2008052803162_2.html?wpisrc=newsletter

Global Demand Squeezing Natural Gas Supply
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Drilling our way out of rising oil prices
CNN Money, May 30, 2008;
http://money.cnn.com/2008/05/30/news/economy/oil_drilling/?postversion=2008053005

Oil executives and some lawmakers believe it's one of the only ways to help calm skyrocketing prices, but others say it takes us further away from a long term solution.

NEW YORK (CNNMoney.com) -- The U.S. has huge amounts of untapped oil, but pesky politicians and environmentalists won't let us get it.

That's a common cry heard from some lawmakers and nearly everyone working at an oil and gas company. If the U.S. wants to help keep the market adequately supplied with oil and perhaps lower prices they say, it needs to open up vast sections of the country currently off-limits to oil and gas exploration.

But given the amount of time it would take to get new drilling projects up and running, and the relatively small amount of oil they'd likely yield, most analysts say more drilling in the U.S. would do little to help solve the world's dual energy challenge of meeting rising demand while cutting greenhouse gasses.

Some 60% of all federal land as well as most of the East and West coasts are currently subject to drilling bans - many were put in place after a big oil spill off the coast of Santa Barbara, Calif., in 1969.

If these areas are not opened, it certainly won't be for lack of trying.

Oil industry executives harped on these drilling bans in testimony before Congress last week, telling lawmakers lifting them was one of the few things they could do that might have a prayer of lowering oil prices.

Several Republican-led efforts to lift the drilling bans have emerged in Congress, but they have all failed so far.

"We're the only developed country that methodically restricts access to resources," said Richard Ranger, senior policy advisor at the American Petroleum Institute. "We can't conserve our way out of this. We're going to need a mix of policies, but increasing production is going to be part of that mix."

It's hard to say how much oil lifting the bans would provide - very little exploratory drilling has been done in most of these areas.

But using estimates based on the limited information available from the Minerals Management Service, the Bureau of Land Management and the Energy Information Administration, lifting the bans might boost the nation's oil production by 1 or 2 million barrels a day by sometime next decade.

These estimates are for conventional crude oil. They do not take into account the vast amounts of oil shale or tar sands that do exist in the country, but are either very expensive to develop or come with significant environmental costs.

Either way, 2 million barrels of oil is not an insignificant amount. It's roughly equal to the amount of oil currently coming from Nigeria, and would increase the current U.S. output of 8.5 million barrels a day by over 20%.

But the projects would take a long time to come online. Places like the Atlantic coast, thought to be rich in natural gas, lack drilling platforms, pipelines, terminals, storage facilities, and other energy infrastructure. EIA

estimates that if Alaska's Arctic National Wildlife Refuge were opened for drilling tomorrow, oil wouldn't flow at full tilt until 2025.

Plus, oil is a global market. It's true that oil pumped in the U.S. could stay in the U.S. But prices will be determined by international, not national, supply and demand.

By 2025, world consumption, currently at about 85 million barrels a day, is expected to swell to well over 100 million barrels a day. That makes 2 million barrels a day look pretty small.

"I wouldn't say it's a drop in the bucket," said Greg Priddy, a global energy analyst at the Eurasia group. "But it changes things only marginally over the long term."

Priddy said these 2 million barrels a day would need to be balanced against steep production declines expected in many non-OPEC areas like Russia, Mexico and the North Sea over the next several years. Non-OPEC production is expected to peak within the next decade or two, regardless of what the U.S. does, he said.

"It really just delays the day of reckoning a bit," he said.

Environmentalists, of course, hate the idea of more drilling rigs in the wilderness or offshore on continental shelves rich in marine life.

They say spills will happen regardless of how careful the industry is, although numbers from the Minerals Management Service show the industry has greatly improved their environmental record. Also, countries like Canada and Norway, hardly known for being environmental mavericks, pursue aggressive offshore drilling plans.

The larger argument put forth by the environmental community is that more oil will not solve the world's energy challenge.

"When you're addicted, the first thing you want to do is stop drinking," said Adam Kolton, director of congressional affairs for the National Wildlife Federation, referring to President Bush's State of the Union speech when he said the nation was addicted to oil. "What the American people want is an end to dependency on oil and a focus on alternatives."

Kolton said more and cheaper oil will only foster the same culture of big cars and sprawling houses we've become accustomed to, and leave us even more dependent on OPEC 20 or 30 years out.

"This is just more of the failed policies of the past," he said.

Environmentalists also push for focusing more on conservation.

If the U.S. switched to plug-in hybrid electric vehicles, the country would save 3.8 million barrels of oil a day - roughly twice what new drilling would provide - according to the Natural Resources Defense Council.

Most analysts agree that conservation will play a greater role in meeting energy demand than drilling in the U.S.

"It's not a comprehensive solution to the energy problem," Newedge brokerage Deputy Head of Research Antoine Halff said, referring to lifting the drilling ban. "If you want to design energy policy, you have to think about demand."

Oil Exporters Are Unable To Keep Up With Demand
WSJ, May 29, 2008; http://online.wsj.com/article_print/SB121200725158327151.html

Domestic Needs, Sluggish Investment Crimp Shipments

The world's top oil producers are proving unable to put more barrels on thirsty world markets despite sky-high prices, a shift that defies traditional market logic and looks set to continue.

Fresh data from the U.S. Department of Energy show the amount of petroleum products shipped by the world's top oil exporters fell 2.5% last year, despite a 57% increase in prices, a trend that appears to be holding true this year as well.

There are several reasons behind the net-export decline. Soaring profits from high-price crude have fueled a boom in oil demand in Saudi Arabia and across the Middle East, leaving less oil for export. At the same time, aging fields and sluggish investments have caused exports to drop significantly in Mexico, Norway and, most recently, Russia. The Organization of Petroleum Exporting Countries also cut production early last year and didn't move to boost supplies again until last fall.

In all, according to the Energy Department figures, net exports by the world's top 15 suppliers, which account for 45% of all production, fell by nearly a million barrels to 38.7 million barrels a day last year. The drop would have been steeper if not for heightened output in less-developed countries such as Angola and Libya, whose economies have yet to become big energy consumers.

For all the attention paid to China's increasing energy thirst, rising energy demand in the Middle East may pose the greater challenge. Last year, the region's six largest petroleum exporters -- Saudi Arabia, United Arab Emirates, Iran, Kuwait, Iraq and Qatar -- curbed their output by 544,000 barrels a day. At the same time, their domestic demand increased by 318,000 barrels a day, leading to a loss in net exports of 862,000 barrels a day, according to the U.S. Energy Information Administration.

Demand in the Middle East is a major factor right now, said Adam Robinson, an oil analyst at Lehman Brothers in New York. Mr. Robinson predicts the region will constitute more than 40% of increased demand next year.

Saudi Arabia in particular has become a major energy consumer as the country pushes to put its oil riches to greater use. The kingdom is in the middle of a major investment campaign to become a world player in petrochemicals, aluminum and fertilizers, all of which will require huge amounts of oil and natural gas.

Since 2004, Saudi oil consumption has increased nearly 23%, to 2.3 million barrels a day last year. Jeffrey Brown, a Dallas-based petroleum geologist who studies net export numbers, said that at its current growth rate, Saudi Arabia could be consuming 4.6 million barrels a day by 2020.

That would cut significantly into Saudi exports even as the world looks to its largest oil supplier to help manage rising demand. Saudi Arabia has nearly a quarter of the world's proven reserves and supplies around 12% of the 86 million barrels a day that the world now consumes.

One reason Middle Eastern nations are using more oil is a shortage of natural gas, said Bill Farren-Price, director of energy at Medley Global Advisors. This is particularly troublesome during the summer, when governments scramble to keep the lights on and air conditioners cranking.

Some producers, such as the U.A.E., are easing back at times on the crucial industry practice of injecting natural gas into crude oil fields, which is done to boost reservoir pressure and increase crude recovery rates. Halting the injections ends up undercutting oil production, further reducing exports.

As top exporters hit trouble, historically marginal players such as Brazil and Kazakhstan are likely to play a greater role. Three of the four non-OPEC players among the top 15 oil exporters -- Russia, Norway and Mexico -- are reporting declines in production this year. Kazakhstan is showing slight net export gains.

No big exporter is struggling more than Mexico, where net exports dropped 15% in 2007. Mexican officials announced Monday that output from the country's once-mighty offshore Cantarell field had plunged by a third in less than a year.

Analysts said there are reasons for optimism. Russia's government is scrambling to alter the tax rates that many say have put a lid on new oil development. Mr. Robinson said 65 new ultra-deepwater drilling rigs are expected to arrive over the next three years, following a five-year stretch in which the industry gained only 10 such rigs.

Those additional rigs will help companies tap some of the most promising, but now inaccessible, waters off Brazil, Australia, West Africa and in the Gulf of Mexico.

"The sense in the market is that peak oil is here and that things will only get worse," says Mr. Robinson. "But the verdict is still out on that."

Are Energy Markets In For Storm-Tossed Season?
WSJ, May 29, 2008; http://online.wsj.com/article/SB121202974748128453.html?mod=googlenews_wsj

By BEN CASSELMAN
May 29, 2008; Page A8

As if the energy markets weren't jittery enough: Sunday marks the start of the first hurricane season in the era of $100-plus oil.

Although severe storms rarely hit until July, market experts say the approaching prospect of major summer storms already is contributing to the skyward push of oil and natural-gas prices. Once a hurricane actually begins traveling through the tropics, prices could spike higher as investors begin buying on fears of supply disruptions to oil facilities in the Gulf of Mexico.

"We're all wound up tight as a drum," said Guy Gleichmann, president of United Strategic Investors Group, a commodities brokerage in Hollywood, Fla.

The Gulf of Mexico accounts for a quarter of U.S. crude-oil production and 14% of its natural-gas production. The hurricane-vulnerable Gulf Coast is also home to about a third of the nation's refinery capacity. Hurricane damage to production and transportation systems could drive up gasoline prices for months, and higher energy costs could mean higher bills for summer electricity and winter heating.

That is what happened in 2005, when hurricanes Katrina and Rita battered oil platforms, tore drilling rigs from their moorings and shut down coastal refineries for weeks. Crude-oil prices spiked 30% to $70.80 a barrel as Katrina came ashore, from $54.60 at the start of hurricane season. With oil currently trading around $130 a barrel, a runup on a similar scale would push prices close to $170 a barrel.

Barring catastrophic damage to oil infrastructure, though, the impact on oil prices is likely to be short term. U.S. oil production resumed quickly after Katrina and Rita, and imports helped sustain inventories.

Natural gas may be more vulnerable, as the market is more dependent on domestic production. If a hurricane curtails natural-gas production for more than a few days, it could cut into supplies being stored for winter heating, leading to further price increases. When customers turned on their radiators in December 2005, prices peaked above $15 per million British thermal units, which remains the record. This year has the potential to bring even more pain to consumers; in 2005, natural gas began the hurricane season at $6.789 per million BTUs, compared with Wednesday's close of $11.995.

The complex network of offshore platforms, pipelines and other infrastructure makes natural-gas production particularly vulnerable in the Gulf of Mexico. Case in point: Independence Hub, a massive offshore natural-gas platform that funnels close to a billion cubic feet per day of gas to the U.S. market, has been offline since April because of a pipeline leak. Repairs initially estimated to take less than a month now won't be finished until June.

"It's a demonstration of how fragile the infrastructure is, and how delicate the supply-demand balance is," said Dan McSpirit, an analyst with BMO Capital Markets in Denver.

Oil and natural-gas producers escaped 2006 and 2007 without any significant hurricane damage. That allowed them to build up supplies of oil and, in particular, natural gas, helping to keep prices more stable for consumers. Gas prices rose in each of the past two winters but never approached their 2005 high. Natural gas generates about 40% of U.S. electricity and heats about a quarter of the nation's homes.

Going into the summer storm season, data from the U.S. Energy Information Administration show that a cold winter already has drained natural-gas inventories to 16% below last year's level.

"The problem with this summer is we're sort of on a knife's edge anyway," says Jefferies & Co. analyst Subash Chandra.

The National Oceanic and Atmospheric Administration last week said there is a 65% chance of an above-average hurricane season, and predicted 12 to 16 named storms, including two to five major hurricanes of Category 3 or above. Experts caution there is no way to know where storms will hit or whether they will disrupt oil and gas operations. For example, last year's 15 hurricanes -- with two reaching the most intense Category 5 -- had almost no impact on oil production.

Oil and natural-gas producers say they have taken advantage of the two-year lull to improve their hurricane readiness. Offshore, they have raised standards for securing oil platforms and drilling rigs to reduce the damage hurricanes would cause, while onshore they have set up satellite offices and taken other steps so they can more quickly bring operations back online once a storm moves away.

"We are much better prepared than we were three years ago," said Walter Cruickshank, deputy director of the Minerals Management Service, the federal agency that oversees the offshore oil and gas industry.

MMS Extends Evaluation Period for Central GOM Sale
Rigzone, May 28, 2008; http://www.rigzone.com/news/article.asp?a_id=62403&rss=true

The Minerals Management Service has extended, by 30 days, the post-sale evaluation period for bids received in its record-setting federal oil and gas lease sale held in March. This action is necessary because of the unusually high number of bids received, especially in the deep and ultra-deep waters.

Central Gulf of Mexico Sale 206 held March 19, 2008, attracted $3,677,688,245 in high bids. MMS received 1,057 bids on 615 tracts, with 513 of those tracts requiring additional detailed

evaluations. The high number of bids received on a large number of tracts, and the substantial volume of recently processed and reprocessed seismic data identified, significantly increased the workload for reviewing the adequacy of bids, and made it necessary to allow more time for MMS geoscientists and engineers to gather, interpret and evaluate these enhanced data.

"Although MMS normally conducts and completes the bid review process within the 90 days of the bid reading, it is not unusual to extend the evaluation period when there is a large number of tracts with an extensive volume of information to assess," said Lars Herbst, MMS Gulf of Mexico regional director.

Every bid is reviewed and high bids are evaluated to ensure that oil and gas companies are paying a fair price for the opportunity to develop any potential resources. If MMS determines that a bid on a particular tract of land is not adequate, the bid is rejected and the tract will be offered at the next sale for that area.

"This process ensures that the nation's offshore energy resources are protected and the public receives fair dollar value for development of those resources," said Herbst.

A notice published in the Federal Register extends the post-sale evaluation period for Central Gulf of Mexico Lease Sale 206. MMS will complete evaluating all the bids received in this sale by July 17, 2008.

US MMS releases proposed OCS oil, gas lease revenue-sharing rules

Platts, May 27, 2008;
http://www.platts.com/Natural%20Gas/News/6886221.xml?src=Natural%20Gasrssheadlines1

The US Minerals Management Service on Tuesday published its proposed rule for Outer Continental Shelf oil and gas lease revenue-sharing with Gulf of Mexico coastal states, one of the final steps in boosting to 37.5% the revenue that states receive.

Under the proposed plan, mandated in the Gulf of Mexico Energy Security Act of 2006, MMS will disburse 50% of the OCS revenues -- including lease sale bids, rents and royalties -- to the federal treasury, 12% to a federal land and water conservation fund, 30% to the states producing the oil or gas and 7.5% to the counties, parishes and cities along the coast.

Currently, the law allows oil and gas development on the OCS offshore Alabama, Louisiana, Mississippi and Texas, and the new regulations would apply to leases sold between fiscal 2007 and 2017 in the so-called 181 Area in the MMS Eastern Planning Area, as well as the 181 South Area.

A March sale in the 181 Area--lease sale 224--attracted $64.7 million in bids and will be the first sale to fall under the new rules.

Each state would receive a portion of the revenues from individual leases based on its distance from the center of the lease. The 2006 law requires states and communities along the coast to use the revenue for coastal protection and conservation programs.

Revenue taken as part of the royalty-in-kind program, in which MMS takes oil or gas in payment instead of cash, will not fall under the new rules.

--Derek Sands, derek_sands@platts.com

Methane Poses Climate Risk, Energy Opportunity
Wired, May 29, 2008; http://www.wired.com/science/planetearth/news/2008/05/methane

By Eliza Strickland 05.29.08 | 12:00 AM

This image shows a chunk of burning methane hydrate. The inset image shows the hydrate's molecular structure: A lattice of water ice that traps the methane inside.
Courtesy U.S. Geological Survey
Methane reserves deep in the ocean and in arctic permafrost might trigger runaway global warming. But they've also got the potential to provide huge amounts of power, a possibility that is attracting the interest of energy companies.

Methane hydrate, a strange form of natural gas, has recently become a fascination for energy-hungry nations from the United States to Japan and India. Hydrate is found in oceans across the world, where the gas is trapped in icy structures below the seabed, and also lies beneath the Arctic's permafrost.

A paper published this week in Nature suggests that the release of methane hydrates, also known as clathrates, may have triggered a very rapid period of global warming 635 million years ago -- and may do so again. But those same hydrates are also a tempting target for energy production.

"What we've been asked to do is to make this a viable option for the policy makers in the future, and to figure out what's available to us," says Ray Boswell, a researcher with the U.S. Department of Energy's methane hydrates R&D program. "You don't want to find out that you need it, and then find out that you're 30 years down the science and technology curve."

The Gulf of Mexico is estimated to hold more than 6,500 trillion cubic feet of hydrate in sandstone reservoirs, currently the best candidates for commercial exploitation, according to the U.S. Minerals Management Service. If only 5 percent of that hydrate could be tapped, it would yield more than 300 trillion cubic feet of gas. By comparison, the United States' reserve of conventional natural gas is currently estimated at 211 trillion cubic feet.

Researchers romantically call methane hydrates "the fire in the ice," since the frosty chunks burn if you set a match to them. But it's not just romance that's drawing energy companies to the frozen fuel. While methane hydrates have previously been too expensive to extract on a commercial scale, the increasing price of oil -- now more than $130 per barrel -- means the hydrates might soon become a profitable energy source. Chevron has been involved in the gulf research, and BP is exploring for hydrates in Alaska. Japanese engineers reportedly pumped hydrates from a test well in Canada's Northwest Territories this last winter.

"Everybody knows there's a lot of it," Boswell says. "Now, our goal is to understand the ramifications: Does it have potential as an energy resource, and if so, how would you go about getting it? And how does it fit into climate issues?"

It's that last question that opens up the can of worms. Even as some researchers wonder whether methane hydrate could play an important role in powering the 21st century, others ask whether it has played a critical part in catastrophic climate shifts in the past -- and if it could do so again.

The troubling questions arise from prehistoric climate blips that researchers are still struggling to understand.

The most recent abrupt climate change occurred 55 million years ago during the Eocene greenhouse event, when ice disappeared from the poles and trees grew in Antarctica. From analyzing the fossil record, researchers determined that there were very high levels of methane in the atmosphere at that time.

Some paleoclimate researchers hypothesize that a gradually warming climate brought oceans to a temperature tipping point around 55 million years ago, which caused icy methane hydrate structures to melt and let the gas bubble up to the ocean's surface in a long, enormous burp. Since methane is a more powerful greenhouse gas than carbon dioxide, if it were released into the atmosphere in a huge gush, it may have caused temperatures to spike dramatically.

This theoretical precedent has led to speculation in popular science books that our current bout of man-made global warming could cause another catastrophic methane release. But the dominant scientific paradigm is that methane is more likely to be an issue over the long term.

David Archer is an ocean chemist at the University of Chicago who called methane the "crouching tiger of the carbon cycle" on a respected climate blog.

"It's predicted that with a doubled [carbon dioxide] concentration, the deep ocean could eventually change its temperature by about three degrees," Archer told Wired.com. "Three degrees would eventually get rid of all the methane in the ocean. But at what rate -- that's the question."

After conducting his most recent modeling experiments, Archer says that methane released from the ocean could accelerate global warming over a time frame of thousands of years. But we don't have a serious cause for alarm within our lifetime, he says. Smaller releases of methane hydrate are likely as the Arctic permafrost thaws during this century, "but those are equivalent to a volcano eruption," Archer says. "It's not a doomsday thing."

But the lead author of the new Nature paper, Martin Kennedy of the University of California at Riverside, explicitly called a release of methane hydrate "a doomsday scenario for the climate," and called for far more research into methane's role in the world's climate.

While U.S. scientists are proceeding fairly slowly, investigating both the risks and benefits of methane hydrates, other countries are on a faster track.

Japan, South Korea, China and India are all determined to make methane hydrates a viable energy source. India spent $35 million on a 2006 expedition to explore deposits along its coasts, while South Korea, which currently relies on imported natural gas to fuel most of its power plants, has pledged to start commercial production by 2015.

The world may have found a successor to the gold rush and the oil boom: the methane bubble.

Rebuffing The Rockefellers
The Washington Post, May 29, 2008; http://www.washingtonpost.com/wp-dyn/content/article/2008/05/28/AR2008052803162_2.html?wpisrc=newsletter

By Steven Mufson
Washington Post Staff Writer
Thursday, May 29, 2008; D01

Exxon Mobil yesterday fended off a revolt by descendants of company founder John D. Rockefeller Sr. at the firm's annual meeting in Dallas and defeated a shareholder resolution that would have divided the jobs of chairman and chief executive, now both held by Rex W. Tillerson.

The proposal, which was approved by 39.5 percent of shareholders, was one of four resolutions that garnered substantial shareholder support from the extended Rockefeller family, state pension funds, institutional holders and individuals, though all of the measures fell short of the majority needed. The other resolutions would have forced the company to give shareholders some say over executive pay, prohibit discrimination based on sexual orientation, draw up a plan to cut its own greenhouse gas emissions and turn its attention toward clean energy resources.

The meeting cast Exxon's founding family in an unusual role: dissident shareholders.

"It is very rare for us to do something public," Peter O'Neill, Rockefeller's great-great-grandson, said in an interview after yesterday's shareholders meeting. But at one of the family's semiannual meetings in the New York area, he said, nearly all the Rockefeller descendants had agreed to back four shareholder resolutions opposed by the company.

"For 73 out of 78 adult descendants to come together and say we're going to stand up is a big deal," O'Neill said. "Obviously we were concerned about some of their policies and the pace of change."

The focus of the family's concern has been climate change and its consequences for the planet and the company, and Tillerson nodded to climate issues in his opening remarks yesterday. But Tillerson said that "25 or 30 years from now, the world is still going to have to use oil and natural gas. Whether people like it or not, that's a fact."

O'Neill said the family began conveying a different view to Exxon senior managers five years ago. Though family members have had "multiple meetings" with Exxon executives, board members have refused to meet them. On only one occasion did Tillerson and the previous chief executive, Lee Raymond, grant an audience to members of the family, and that was to David Rockefeller -- the former chief executive of Chase Manhattan Bank and a grandson of John D. Rockefeller -- along with one of his daughters, Neva Rockefeller Goodwin.

But the family stayed focused on Exxon. More than a century after John D. Rockefeller retired, Exxon remains the family's biggest single holding, O'Neill said.

This year, the Rockefellers decided to take to the floor of the annual shareholders meeting, strongly supporting the resolution separating the chief executive and chairman positions and sponsoring the resolution urging Exxon to come up with targets for greenhouse gas emissions and a strategy for developing clean energy resources. (It was the seventh consecutive year that a resolution to separate the chairman and chief executive jobs -- a division common in U.S. corporations -- was on the agenda.)

From the floor of the Dallas auditorium yesterday, Goodwin -- author of an introductory college microeconomics textbook and co-director of Tufts University's Global Development and Environment Institute -- said that members of the extended Rockefeller family "have become seriously concerned about the future of Exxon."

She said that "increased CO2 in the atmosphere will cause weather disasters that . . . will certainly have a huge and harmful impact on the global economy itself, on which the success of a giant global company such as Exxon Mobil so largely depends."

Goodwin said that the company's forecasts of strong oil-demand growth from developing nations were inconsistent with the consequences of climate change from growing greenhouse gas emissions. "Those nations will be the ones most adversely affected by climate change," she said.

Yet Goodwin's resolution proposing that the company establish a task force to study climate change and opportunities for Exxon to develop sustainable energy technologies won only 10.4 percent of the votes cast.

The polite but pointed Rockefeller rebellion was an odd historical twist. After John D. Rockefeller Sr. founded Standard Oil in 1870, people in the business disregarded his views at their peril. The Standard Oil Trust either bought up competitors or drove them out of business and ultimately controlled the vast majority of the U.S. oil industry.

In 1911, the Supreme Court broke up Standard Oil. The pieces included Standard Oil Co. of New Jersey (now Exxon), Standard Oil Co. of New York (now Mobil), Standard Oil Co. of Indiana (later Amoco and now part of BP), Standard Oil Co. of California (now Chevron) and Standard Oil Co. (Ohio), later Sohio and now part of BP.

The Rockefeller family holdings have dwindled. Kenneth Cohen, an Exxon vice president, said this year that the family owns only 0.006 percent of the company, but an outside representative of the family asserted that family holdings may be as high as 1 percent when all of its trusts are taken into account.

The largest shareholders of Exxon are institutions, especially those managing pension funds or index funds. Barclays Global Investors owns 4.41 percent, State Street owns 3.56 percent and Vanguard Group owns 3.15 percent. Many of them routinely abstain on shareholder resolutions.

Exxon management lobbied hard in advance of yesterday's meeting to defeat the most popular resolutions.

"If they only spent as much time saying, 'We'll sit down and talk to you' . . . they could have avoided a lot of this," said Sister Patricia Daly, a Dominican nun and shareholder activist based in New Jersey who attended yesterday's meeting.

Though the resolutions were defeated, O'Neill said the Rockefeller clan would continue to press Exxon directors and executives. "They have to get out of their comfort zone and be open-minded and truly look at solving some of these problems," he said. "They're very cautious when drilling a well and that's great. . . . But I personally would still like to see them use some of their brilliance to solve some of these problems. And they'll make more money."

Global Demand Squeezing Natural Gas Supply
NYT, May 29, 2008;
http://www.nytimes.com/2008/05/29/business/29gas.html?pagewanted=2&_r=1&th&emc=th

CAMERON PARISH, La. — The cost of a gallon of gas gets all the headlines, but the natural gas that will heat many American homes next winter is going up in price as fast or faster.

That fact makes the scene in the languid, alligator-infested marshland here in coastal Louisiana all the more remarkable.

Only a month after Cheniere Energy inaugurated its $1.4 billion liquefied natural gas terminal here, an empty supertanker sat in its berth with no place to go while workers painted empty storage tanks.

The nearly idle terminal is a monument to a stalled experiment, one that was supposed to import so much L.N.G. from around the world that homes would be heated and factories humming at bargain prices.

But now L.N.G. shipments to the United States are slowing to a trickle, and Cheniere and other companies have dropped plans to build more terminals.

A longstanding assumption of American energy policy has been that natural gas would be plentiful abroad, and therefore readily available for importation, as production falls off in North America, where many fields are tapped out.

But some experts are starting to question that idea, saying natural gas could be subject to the same explosion in overseas demand that has made oil so expensive.

As it is, the supertankers that were supposed to deliver cargoes of gas from Africa and the Middle East to the United States are taking them to places like Spain and Japan instead, pushing up gas prices and depleting the nation's stockpiles as the hurricane season approaches.

"A few years ago people looked at L.N.G. as a solution to North America's gas needs," said Nikos Tsafos, an analyst with PCF Energy, a consulting firm. "But today we see that there is less L.N.G. around than people expected, and there is more competition for that L.N.G. from markets that are willing to pay more than the United States."

Not long ago, Cheniere was a darling of Wall Street. It was widely praised for having the vision to plan four new liquefied gas terminals around the Gulf of Mexico to connect the country with supplies of natural gas from places like Nigeria and Egypt, gas once considered so worthless it was burned off.

Now the company's stock price has sunk from $40 to just over $5 since last fall.

"The question that people ask is if L.N.G. doesn't come to the United States for another year or two or three, what is going to happen to Cheniere," acknowledged Charif Souki, the chief executive officer of the company.

While natural gas prices in the United States have spiked to over $11.80 per thousand cubic feet from $7.50 at the beginning of the year, the price that gas producers can draw in many other countries in the world is several dollars higher. All they need are terminals in producing countries that can chill natural gas to minus 260 degrees Fahrenheit for shipping across oceans and terminals in consuming countries that can regasify cargoes.

Just about the only place where demand for L.N.G. seems not to be growing is the United States, an abrupt shift from expectations as little as one year ago.

The Sabine Pass terminal was part of an estimated $7 billion construction of eight new L.N.G. receiving terminals being built around the Gulf of Mexico and the Atlantic Coast over the last five years to guarantee plentiful domestic supplies. With imports about 40 percent of the level of a year ago, and national receiving terminal capacity poised to double this year, the excess construction of import capacity has alarmed industry executives.

However the executives predict that it is only a matter of time before the white elephants begin to look like a more robust breed. They say American gas suppliers will eventually be willing to pay the higher world prices on the spot market, especially if a gas shortage ensues after a punishing hurricane season or frigid winter.

They also predict future American consumption of natural gas is poised to increase because of hardening opposition to building new coal-fired electricity generating plants and delays in new nuclear plants. "Over time, we will need to start importing more gas," said Darcel L. Hulse, president of Sempra LNGE, a division of Sempra Energy, which is building receiving terminals in Mexico and Louisiana. "We will not have enough."

That was the thinking that spurred the L.N.G. expansion in the United States in the first place. At the beginning of the decade, government officials and energy experts predicted a decline in domestic natural gas production as conventional fields on-shore and in the Gulf of Mexico declined. Companies like Cheniere, Sempra Energy and Exxon Mobil began snapping up coastal land and requesting regulatory approval for scores of terminals. Several other terminals were taken out of mothballs and expanded.

But recently domestic natural gas production has been stronger than expected and events abroad have drawn L.N.G. from the United States to countries that needed it more.

Last July an earthquake in Japan forced the closing of the Kashiwazaki-Kariwa nuclear power plant, which in turn has forced Japanese utilities to import huge amounts of L.N.G.

World L.N.G. supplies grew even more scarce because of a persistent drought in Spain that has crimped that country's hydroelectric capacity, forcing the Spanish to increase L.N.G. imports.

Prices in Asia and Europe have soared, as producers have sold more supply on the spot market where prices are higher than those in traditional long term contracts.

World demand for natural gas has grown about 2.6 percent a year over the last decade, but in Asia, the Middle East, Latin America and Africa it has averaged 7 percent over the same period, according to a recent UBS report. Growth in the developing world is expected to be supported in the years ahead by a construction boom in refineries and power and petrochemical plants.

Supplies of L.N.G. are going to grow in the next few years, but experts say they will not be enough to satisfy the growing demand. Liquefaction plant projects that prepare the gas for shipping in producing nations like Nigeria and Russia are being delayed and even shelved because of political turbulence, cost overruns and increasing domestic demand for gas in their own countries. Production in one major terminal in Indonesia is sliding because of a declining field, and production in another in Norway is facing mechanical difficulties.

With L.N.G. providing only about 3 percent of total American natural gas consumption in recent years, the fall in L.N.G. imports has made few headlines. But some experts say those responsible for importing gas are making a mistake by not buying more L.N.G. at current prices.

They warn that the failure to import more L.N.G. is leaving natural gas reserves precariously low should the country be hit by a harsh hurricane season or cold winter. They say low L.N.G. imports have helped push American natural prices higher, just not high enough to match the prices of Europe and Asia whose ability to produce and store gas is far inferior to the United States.

Andrew D. Grams, head of North American power and gas trading at Deutsche Bank, said the United States may eventually pay dearly for not importing more L.N.G. now. He calculated that given the reduced L.N.G. imports and expected energy use through the summer, the country will have only 3.1 trillion cubic feet of gas in storage at the end of October — almost 1 trillion cubic feet below full storage.

"Under a normal scenario, that's just barely enough to get through winter," Mr. Grams said. "It doesn't take a rocket scientist to figure out that we may not get enough L.N.G. supply in the United States unless our pricing structure becomes more competitive with the rest of the world."

Natural gas, unlike oil, is still a regional commodity and its price is only loosely connected to world oil benchmark prices. But L.N.G. has tied regional markets closer, and the arc of natural gas prices appears to be following close behind oil in recent months because of tightening L.N.G. supplies.

The same increases in the prices of steel and other materials and shortages in labor that are making to more expensive to explore for oil are making L.N.G. development more costly too. Meanwhile, countries that produce oil and gas like Libya and Algeria are replacing their oil-powered electricity plants with natural gas-burning plants. That way, they are able to export more oil, which costs less to ship than L.N.G.

"The value of gas to you is what people are willing to pay for the oil you are exporting," said Don Hertzmark, a consultant who has advised several oil companies on L.N.G. projects. "At that point, the gas is worth a lot of money."

Nevertheless hopes for L.N.G. still survive here. The secretary of energy, Samuel W. Bodman, and a Cajun zydeco band came last month to celebrate the opening of the Sabine Pass terminal, and a tanker delivered L.N.G. from Nigeria for testing purposes.

Workers are testing generators and painting and building five huge storage tanks, each capable of providing a full day's supply of gas for Louisiana. Tugboat crews are practicing for any future cargo arrivals.

"I know the L.N.G. will come and we'll make a profit on this," said Darron Granger, a Cheniere senior vice president. "I just can't say when."

Ignoring U.S. resources ignores energy security
The Mountain Mail, May 28, 2008;
http://www.themountainmail.com/main.asp?SectionID=7&SubSectionID=7&ArticleID=13827

by C. Stephen Allred

As Americans warily eye gasoline prices marching toward $4 a gallon, it becomes more apparent daily how acute the effects are on manufacturers, airlines, small and large businesses and average Americans.

Ten years ago, average cost of a gallon of gasoline was barely above a $1. Our need for energy security and access is more crucial than ever. The truth is, America has abundant energy resources. We choose not to develop most of them. We cannot, and must not, ignore key energy resources available at home.

Working with Congress, the president signed the Energy Independence and Security Act of 2007, specifying a national mandatory fuel standard of 35 miles per gallon by 2020 for new vehicles. That will save billions of gallons of gasoline. The law also requires fuel producers to supply at least 36 billion gallons of renewable fuel in 2022.

These are steps toward energy security, but 2020 seems a long time when many of our industries and citizens are struggling now.

A recently released study of oil and gas resources and limitations on development paints a dramatic picture in an era when energy access and security are so important. The report, the third in a series of congressionally mandated scientific inventories, identified 31 billion barrels of oil and 231 trillion cubic feet of natural gas on mostly western federal land.

The study estimates that of the 279 million acres of onshore federal mineral land containing those resources, 60 percent are off limits to development and 23 percent face restrictions limiting the amount of oil and gas that can be produced - and when.

In terms every driver can appreciate, that means of the estimated 598 billion gallons of gas and 214 billion gallons of diesel that could be produced, about 372 billion gallons of gas and 133 billion gallons of diesel can't be tapped because of prohibitions and restrictions.

Oil shale deposits in the U.S. represent reserves possibly twice as large as those of Saudi Arabia. Yet Congress has prohibited steps necessary to make the vast resource available.

Renewables such as wind, solar, hydroelectric, biomass and geothermal will make up a growing part of our energy portfolio. But renewables will not solve our supply problem. Projected to supply 12 percent of our energy by 2030, renewables face challenges similar to oil and gas - they affect the environment and people don't want production or transmission facilities in their back yards.

Environmental plans for U.S. energy production are already among the most restrictive in the world. Despite that, protests and legal challenges besiege energy development decisions, delaying or derailing production. Meanwhile, we spend trillions of U.S. dollars to buy oil from countries who don't have the same political and environmental standards we enjoy. It doesn't make good sense.

The picture is even more striking offshore where 85 percent of the U.S. Outer Continental Shelf is off limits to development in the lower 48 states. Yet most of the U.S. oil and gas is located offshore - an estimated 86 billion barrels of oil and 420 trillion cubic feet of natural gas. That's enough to fuel almost 40 million cars and heat 92 million homes for 15 years.

We produce less than half the oil we consume and import the rest. Demand in China and India is expected to more than double by 2030, heightening supply competition. Trends all point to increasing difficulty in obtaining energy at reasonable cost.

Latest Energy Information Administration estimates, even with new energy efficiency standards, show U.S. oil consumption will rise 10 percent by 2030 - better fuel mileage will be offset by more cars. Total energy use will increase 19 percent.

Meeting short term energy demand will require more access to resources for oil, gas and renewable energy, together with increases in conservation and energy efficiency. No single approach is enough. Health of our economy and national security require balancing access to energy resources with other land use, but how many limits can we afford? With each fill up, Americans pay the price for those limits.

It's time we look within our borders for solutions, rather than relying upon shifting energy policies and politics of other countries.

C. Stephen Allred is Assistant Secretary of the Interior for Land and Minerals Management at the U.S. Department of the Interior.

Domenici says U.S. dependence on foreign oil slows economy
AP, May 28, 2008; http://www.lcsun-news.com/ci_9402170

The Associated Press

HOBBS, N.M.—U.S. Sen. Pete Domenici says the United States will send nearly half a trillion dollars overseas this year for oil imports that account for more than 60 percent of the country's total supply.
That dependence on foreign oil weakens the country "diplomatically, militarily and economically," Domenici said in a keynote address Tuesday at a New Mexico Center for Energy Policy conference, under the theme, "The Making of Energy Policy: Where Are We Going?"

"Our dependence on foreign oil slows our economy and deprives workers across the nation of good-paying jobs," according to a text of Domenici's prepared remarks obtained by The Associated Press. "It leaves us vulnerable to high prices and supply disruptions, and we lose tremendous revenues that could be used to develop cleaner technologies and reduce greenhouse gas emissions."

Domenici, ranking member of the Senate Energy and Natural Resources Committee, advocated reprocessing spent nuclear fuel; commercializing oil shale; and allowing oil drilling in the Arctic National Wildlife Refuge and other federal lands and on the outer continental shelf.

The Nuclear Regulatory Commission has received applications for 15 new reactor units and expects to receive a total of 34 applications by 2010 because of the 2005 energy bill, Domenici said. America now produces about 20 percent of its electricity from nuclear sources, he said.
Domenici also said the United States should move toward producing liquid fuel from coal for aviation and diesel fuel and invest in advanced batteries for cars and cellulosic ethanol made from nonfood plants, such as switch grass.

He criticized congressional efforts to prohibit oil drilling on the outer continental shelf and federal lands. Counting proven reserves on federal lands and waters now off-limits to drilling, the United States has enough oil to power the country for at least seven years and enough natural gas to last a decade, he said.

"We have the oil shale reserves, the oil and gas resources and the coal-to-liquids potential to send a message that will shake the princes in the Middle East," Domenici said. "But, to achieve this we cannot keep locking up our lands and preventing domestic industry from unleashing its energy potential."

"Year after year, our policymakers talk about energy independence, but year afte year we consume more and produce less at home," he said.

Several measures passed by Congress in the last few years will help to reduce the country's dependence on foreign oil and decrease greenhouse gas emissions, said Domenici, who is retiring in January after being diagnosed with an incurable brain disease.

In 2006, Congress increased domestic production by opening a large section of the Gulf of Mexico, which contains 1.26 billion barrels and 5.8 trillion cubic feet of U.S. oil and natural gas, he said.

Last year, the energy bill mandated the production of 16 billion gallons of cellulosic ethanol by 2022, Domenici said.

He also said the average fuel economy of American vehicles—known as corporate average fuel economy or CAFE standards—will increase to 35 miles per gallon by model year 2020, which will save 2 million barrels of oil per day and reduce emissions by 192 million metric tons.

Dems' Oil Cure Is Worse Than The Addiction
Investor's Business Daily, May 28, 2008;
http://www.investors.com/editorial/editorialcontent.asp?secid=1502&status=article&id=296778115177867

BY MARK J. PERRY

Leave it to the Democratic majority in Congress to fight rising gas prices and growing dependence on foreign oil by imposing a windfall-profits tax on U.S. petroleum companies, while refusing to let them tap America's vast oil and gas reserves in the Alaskan wilderness and offshore.

Congressional demagogues have always used "Big Oil" as a handy pejorative, but criticizing the oil industry now seems to be a national pastime on Capitol Hill, with both conservative and liberal Democrats piling on.

Part of the new wave of criticism, of course, stems from the fact that oil lagged behind the CPI for decades — serving as an important brake on runaway inflation. Now oil — along with food — is a prime cause of inflation.

Nevertheless, those politicians and pundits who now loudly denounce "Big Oil" for the surge in energy prices should seriously consider the consequences of imposing punitive windfall-profits taxes on an industry that is so critically important to the U.S. economy.

The most likely outcome is that a windfall-profits tax would produce the same result as a similar tax did in the 1980s — reducing investment in domestic oil production.

The windfall-profits tax that was adopted during President Jimmy Carter's administration drained tens of billions of dollars from the industry, money that could have been spent on energy exploration and production in the United States, and ended up increasing our reliance on foreign oil.

Further, that windfall-profits tax failed to raise a fraction of the revenue forecasted.

In other words, the windfall-profits tax of the 1980s failed miserably, and it would fail again this time around.

Or suppose Congress decides to expand a windfall-profits tax to other sectors of the economy. After all, the financial performance in 2007 of a number of other major U.S. industries far exceeded the oil industry's performance.

The latest published data for last year show that the oil industry earned 9.6 cents for every dollar of sales, compared with 20.1 cents for Internet information providers, 19.1 cents for beverage and tobacco producers, 16.7 cents for drug manufacturers, and 15.8 cents for computer equipment makers.

Wouldn't it be logical to pursue industries that are twice as profitable as Big Oil if populist politicians really believed the kind of voodoo economics they propound in congressional hearings?

Nationally, taxes add up to more than 12% of the price per gallon of gasoline on average.

It might seem politically expedient for members of Congress to distance themselves from gasoline taxes — taxes they inherited from their predecessors.

But to hold U.S. companies responsible for the surge in gasoline prices is nonsensical. After all, the main contributor to gasoline prices is the cost of world crude oil, which alone makes up 70% of pump prices, according to the U.S. Energy Information Administration.

As for the charge that oil companies have been driving up prices, consider that U.S. refiners that produce gasoline, diesel and jet fuel are reeling from the impact of high world crude prices. Some actually lost money in the first quarter of this year.

World oil prices might be expected to decline if there was more spare oil-production capacity. But control of world oil prices is not in the hands of investor-owned oil companies in the U.S.; those companies control just 6% of worldwide oil reserves, while national oil companies of foreign governments own 80% of the world's oil reserves.

Even if the control of oil prices were in American hands, which it is not, we would still face the fact that Congress refuses to allow access to plentiful oil and natural gas deposits beneath federal lands and U.S. coastal waters.

It's hard for our government to ask the main oil-producing foreign countries to increase their production when 85% of the U.S. outer continental shelf and the Arctic National Wildlife Refuge are closed to domestic energy production.

All too forgotten is that these areas hold billions of barrels of oil, enough to strengthen U.S. energy security and support our economic growth for many years.

The simple realities of the global energy situation and the basic economics of supply and demand argue for Congress to create the conditions for increased domestic oil production.

Opening up oil exploration in areas that are currently off-limits would be an encouraging sign that our elected lawmakers are acting in the best long-run interests of our national security and our continued economic prosperity.

Perry is a professor of finance and economics at the Flint campus of the University of Michigan**.**

Group announces intent to sue over walrus petition
The Seattle Times, May 28, 2008;
http://seattletimes.nwsource.com/html/localnews/2004441931_apwstpacificwalrus1stldwritethru.html

DAN JOLING

Associated Press Writer

A conservation group gave notice Tuesday that it will sue to force federal action on a petition to list the Pacific walrus as a threatened species because of threats from global warming and offshore petroleum development.

The deadline was May 8 for an initial 90-day review of the petition by the U.S. Department of the Interior, according to Center for Biological Diversity attorney Brendan Cummings.

The group filed the petition in February.

Shaye Wolf, a biologist and lead author of the petition, said Arctic sea ice is disappearing faster than the best predictions of climate models.

"As the sea ice recedes, so does the future of the Pacific walrus," she said.

The conservation group was one of three that successfully petitioned to have polar bears listed as threatened because of sea ice loss caused by global warming, a decision announced May 14 by Interior Secretary Dirk Kempthorne. That listing also followed court action to force deadline decisions.

Bruce Woods, a U.S. Fish and Wildlife Service spokesman in Anchorage, said the agency is close to finishing a walrus survey.

"We do have a population count from the 2006 survey that should be finalized soon," he said. "That will give us a better basis for evaluating the petition."

The law calls for a 90-day review to determine whether listing petitions contain "substantial information." If a petition passes that first hurdle, the agency has nine months more to perform a status review on walruses and determine whether a listing may be warranted.

If a species is proposed for listing, the agency has one more year to collect additional scientific research and public testimony.

Arctic sea ice last summer dwindled to 1.65 million square miles, the lowest level since satellite measurements began in 1979, according to the National Snow and Ice Data Center at the University of Colorado. In September, that sea ice was 39 percent below the long-term average from 1979 to 2000.

Sea ice in the Chukchi Sea between Alaska's northwest coast and the Russian Far East receded beyond the shallow outer continental shelf where walruses traditionally dive to reach their prey, clams and other creatures on the ocean floor.

As many as 6,000 walruses late last summer and fall abandoned the remaining ice, which covered deep water, and congregated on Alaska's northwest shore.

Herds were larger on the Russian side, where one group included as many as 40,000 animals, according to Russian observers. They estimated 3,000 to 4,000 mostly young walruses died in stampedes when herds rushed into the water at the sight of polar bears, hunters or low-flying aircraft.

Aside from stampedes, biologists worry that if current ice trends continue, and walruses are based on coastlines every summer, they will put tremendous pressure on nearby foraging areas rather than rich offshore feeding areas they historically have reached by living on the edge of the ice pack.

Females and their young traditionally use ice as a diving platform, riding it north in spring and summer like a conveyor belt over offshore foraging areas, first in the northern Bering Sea, then into the Chukchi Sea.

Besides receding ice, conservation groups see threats from offshore petroleum development. The federal Minerals Management Service in February leased more than 2.7 million acres of sea floor in the Chukchi Sea and seismic surveys are planned this summer.

A walrus listing would not affect subsistence harvest by Alaska natives, according to the environmental group.

Listing a species as "threatened" means it is likely to become endangered. "Endangered" is more dire and means a species is in danger of extinction throughout all or much of its range.

Drill, Already
NRO, May 28, 2008;
http://article.nationalreview.com/?q=ZjdhMjQ5NzRmNWM5MjIyMmY3ZmJjOTE2N2Y5NWUxNTM=

By the Editors

With the end of Memorial Day weekend comes the beginning of summer, and with it the beginning of America's heaviest driving season as millions of Americans take to the highways for summer breaks. But if recent trends hold, vacationers are likely to put fewer miles on their odometers this summer than last. High gas prices are finally curbing America's demand for the open road. Transportation Department statistics for March indicate that the country just experienced its first year-over-year decline in miles driven since 1979.

A decrease in demand is one natural market response to rising gas prices. The other natural response — an increase in supply — has not been as forthcoming, and the price of oil continues to rise even though Americans are driving less. The Organization of Petroleum Exporting Countries (OPEC) is partly to blame for this market recalcitrance; the international oil cartel manipulates supply in order keep oil prices high. But if members of Congress really want to mitigate the effects of high oil prices as much as they claim they do, they could start by letting oil companies bring America's vast untapped supplies to market.

We're not just talking about the Alaskan National Wildlife Reserve (ANWR) — which Congress stupidly keeps off-limits even though proposed oil exploration there would only affect approximately 2,000 of its 19 million acres —

though opening just that 0.01 percent of ANWR to oil and natural gas development could supply 5 percent of America's oil per year for 12 years before it starts to decline, according to Energy Department estimates. The Outer Continental Shelf — also off-limits to drilling — likely contains billions of barrels of additional oil and natural gas reserves. While Fidel Castro's Cuba saw no compunction about leasing its share of these waters to the Chinese, the U.S. continues to forbid oil and natural gas exploration in its share.

Critics of proposals to open these areas for business argue that they will take up to 10 years to bring any new supplies online. Of course, they were using this same argument 10 years ago, and if they hadn't prevailed then the U.S. would be less dependent on foreign oil today. They also argue that Congress should be encouraging renewable energy sources such as solar power, wind and biofuels rather than opening the spigots on new sources of petroleum. But the simple fact of the matter is that solar power and wind can't fulfill the vital role non-renewables play in the U.S. economy. As for biofuels, the 2007 mandate requiring the production of 36 billion gallons by 2022 has exacerbated an increase in world food prices without doing anything to lessen the pain at the pump.

Receiving no help from their leaders, Americans have taken it upon themselves to achieve savings in the face of skyrocketing fuel costs. Simply put, we are driving less. Now it's time for Congress to meet us halfway. Superior U.S. technology has made it possible to drill in the environmentally sensitive areas off our coasts with minimal disturbance to the surrounding ecosystem. Better increased production in the U.S. than in other countries with worse environmental track records. With oil nearing $130 a barrel, there are no good arguments left for keeping this supply off the market. If members of Congress really care about helping Americans who are sacrificing in the wake of high gas prices, the best thing they can do is just get out of the way.

Blast From Past for Energy Policy
WSJ, May 27, 2008; http://blogs.wsj.com/politicalperceptions/2008/05/27/blast-from-past-for-energy-policy/

Blast From Past for Energy Policy

Gerald F. Seib, executive Washington editor of The Wall Street Journal, has been involved in covering every presidential election since 1980 and writes the weekly Capital Journal column for the Journal. Click here for Seib's full bio.

If they're smart, the U.S. presidential candidates are preparing big speeches on gasoline prices, which are rapidly becoming the central issue on voters' minds this election year. But what to say about a problem that defies easy or painless solutions?

Here is a suggestion: Remind Americans that the country has been here before — and that the experience tells us the nation isn't helpless in the face of rising energy prices. A combination of market forces and smart, selective government action can help America spin out of an energy crisis and lessen its dependence on foreign oil.

Doing so isn't fast, easy or cost-free, of course, but the message a smart would-be national leader can deliver is this: History shows that Americans needn't be hapless victims of the energy gods.

The most apt precedent for the rapid energy-price increases Americans are feeling today is the oil shock of the mid-1970s, set off by the Arab oil embargo of 1973. Then, as now, a weakening U.S. dollar was putting upward pressure on oil prices. But that only set the stage for the big hit. It came when Arab nations imposed an embargo on the U.S. to punish it for its support of Israel during the 1973 Yom Kippur War.

In mid-October of that year, Saudi Arabia and other Arab states imposed a ban on oil shipments to the U.S., and unilaterally raised prices for other countries. The price of oil quadrupled in the following months.

President Nixon and the rest of the U.S. government sprang into action — and proceeded to do some things that proved silly or counterproductive. Government price controls on oil proved to be a particularly bad idea. And in

the short term, the most effective step in reducing America's energy use was one nobody chose: a deep and painful recession.

But the government took two steps — one to increase energy supplies, the other to reduce demand — that produced significant and long-lasting results. The first was to push through the Alaska oil pipeline, which rapidly increased domestic oil production. Within weeks of the Arab oil embargo, President Nixon signed into law the Trans-Alaska Pipeline Authorization Act, which authorized the completion of a pipeline to carry crude from Alaska's oil fields to port. Among other things, the law turned aside legal challenges, primarily from environmentalists, to completing the pipeline.

The second step with lasting impact came months later, when Congress passed a law creating Corporate Average Fuel Efficiency standards, which required auto makers to produce fleets that got better gas mileage. The standards required that new-car gas mileage, on average, double over the following decade.

Daniel Yergin, chairman of consulting firm Cambridge Energy Research Associates, says that in the years after the 1970s oil shock, Alaskan production added two million barrels of crude oil a day to U.S. oil supplies, while higher auto-efficiency standards saved two million barrels a day in oil consumption: a net four-million-barrel savings every day in America's dependence on imported oil. That was a significant contribution for a country that, by 1990, was importing an average of 5.9 million barrels of oil a day.

Other forces kicked in after the oil shock to help the U.S. overcome the blow. Congress lowered the speed limit nationally to 55 miles per hour, a step that "helped immediately," says James Schlesinger, who was energy secretary from 1977 to 1979. A lower speed limit "is a way of quickly reducing domestic consumption," he adds. "I would not give up that tool."

The oil shock also compelled the energy industry to convert oil-burning power plants to coal, decreasing dependency on an imported fuel and increasing use of a domestically produced one. At the same time, in responding to a combination of market forces and government mandates, consumers and businesses made homes and offices steadily and significantly more energy-efficient.

What's little appreciated now is how effective these changes actually were — for a while, at least — in making the U.S. more efficient and self-sufficient. Crude-oil imports fell sharply for a time after 1979, and actually were lower in 1985 than in 1973, the year the oil shock began, according to statistics from the U.S. Energy Information Administration. The nation's overall motor-vehicle mileage rose 42% from 1973 to 1991 before leveling off.

In addition, thanks to a combination of greater efficiency and a shift of economic activity away from manufacturing to high-technology and services, the U.S. now is a significantly more-productive user of energy than before the oil shocks of the 1970s. The amount of energy consumed to produce a dollar's worth of goods and services in 2006 was 51% below the level of 1970, EIA figures indicate.

None of this is to suggest that adjusting to $130-a-barrel oil will be simple or quick. In recent years, America's energy profile has changed for the worse, with oil imports rising to an average of about 10 million barrels a day last year, while efficiency has fallen in some respects. And the choices politicians now face aren't easy: Is the country ready to open new areas off the Florida coast or in Alaska to oil drilling, or to reinstitute the national 55-mile-per-hour speed limit?

But there is opportunity, as well, for America's political leaders — President Bush and would-be presidents John McCain, Hillary Clinton and Barack Obama — to remind voters and the oil markets: America has shown that it need not stand by helplessly as oil prices rise.

Climate Reality Bites
WSJ, May 27, 2008; http://online.wsj.com/article/SB121184454327221281.html

The global warming debate arrives in the Senate next week, and it's about time. Finally, the Members will have to vote on something real, as opposed to their buck-passing to courts and regulators, and their easy trashing of President Bush.

The vehicle is a bill that principal sponsors Joe Lieberman and John Warner are calling "landmark legislation." They're too modest. Warner-Lieberman would impose the most extensive government reorganization of the American economy since the 1930s.

Thankfully, the American system makes it hard for colossal tax and regulatory burdens to foxtrot into law without scrutiny. So we hope our politicians will take responsibility for the global-warming policies they say they favor. Or even begin to understand what they say they favor. For a bill as grandly ambitious as Warner-Lieberman, very few staff, much less Senators, even know what's in it. The press corps mainly cheerleads this political fad, without examining how it would work or what it would cost. So allow us to fill in some of the details.

* * *

Almost all economic activity requires energy, and about 85% of U.S. energy generates carbon dioxide and other greenhouse gases. For centuries, these emissions were considered the natural byproduct of combustion. As recently as the 1990 Clean Air Act amendments, they were consciously not even described as a "pollutant." But now that the politicians want to decrease those emissions, the government must create a new commodity – the right to create CO2 – and put a price on it. This is an unprecedented tax that would profoundly touch every corner of American life.

The policy preferred by the environmental lobby is called cap and trade. The government would set a limit on emissions that declines every year. The goal of Warner-Lieberman is to return to 2005 levels by 2012, and to reduce that by 30% by 2030.

"Allowances" for emissions would be distributed to covered businesses – power, oil, gas, heavy industry, manufacturing, etc. If they produced less than their allotment, the companies could sell the allowances, or trade them. Cap and trade limits on energy are thus sometimes misleadingly described as a "free market" policy that would create the flexibility for CO2 reductions how and where they are least expensive. But the limits are still a huge tax.

And for the most part, the politicians favor cap and trade because it is an indirect tax. A direct tax – say, on gasoline – would be far more transparent, but it would also be unpopular. Cap and trade is a tax imposed on business, disguising the true costs and thus making it more politically palatable. In reality, firms will merely pass on these costs to customers, and ultimately down the energy chain to all Americans. Higher prices are what are supposed to motivate the investments and behavioral changes required to use less carbon.

The other reason politicians like cap and trade is because it gives them a cut of the action and the ability to pick winners and losers. Some of the allowances would be given away, at least at the start, while the rest would be auctioned off, with the share of auctions increasing over time. This is a giant revenue grab. The Congressional Budget Office estimates that these auctions would net $304 billion by 2013 and $1.19 trillion over the next decade. Since the government controls the number and distribution of allowances, it is also handing itself the political right to influence the price of every good and service in the economy.

The Environmental Protection Agency estimates that this meddling would cause a cumulative reduction in the growth of GDP by between 0.9% and 3.8% by 2030. Add 20 years, and the reduction is between 2.4% and 6.9% – that is, from $1 trillion to $2.8 trillion.

These estimates assume that electricity prices will increase by 44% above what they would otherwise be by 2030. They also assume that existing coal-fired power plants, which currently provide about 50% of U.S. electric power, will be shut down – to be replaced with at least 150% growth in new nuclear facilities, plus other "alternatives." Yet there are only 104 current U.S. nuclear plants, and the industry itself says it's optimistic to think even 30 more can be built by 2020.

In fact, it is pointless to project so far out over multiple decades, since no one knows how markets and consumers would respond, whether the rules would remain constant, or what new technologies might come along. While moralizing about America, most of Europe has failed to meet its mandatory cap and trade goals under the Kyoto Protocol. But the U.S. isn't Italy; we will enforce our laws. So our guess is that these cost estimates are invariably far too low.

In a bow to this reality, California Democrat Barbara Boxer last week introduced 157 pages of amendments to Warner-Lieberman. Most notably, she sets aside at least $800 billion through 2050 for consumer tax relief. So while imposing a huge new tax on all Americans, she vouchsafes to return some of the money to some people. Needless to say, the Senator will be the judge of who receives her dispensation.

Ms. Boxer's amendment shows that cap and trade is also a massive wealth redistribution scheme – all mediated by her and her fellow Platonic rulers. Oh, and she also includes an "emergency off-ramp," should costs prove too onerous. This is really a political "off-ramp" to make Warner-Lieberman seem less dangerous, but you can imagine her reaction if some future Republican President decided to take it.

The upshot is that trillions in assets and millions of jobs would be at the mercy of Congress and the bureaucracy, all for greenhouse gas reductions that would have a meaningless impact on global carbon emissions if China and India don't participate. And only somewhat less meaningless if they do.

Billions could be lost in Gulf oil leases
Politico, May 27, 2008; http://www.politico.com/news/stories/0508/10633.html

While Americans pay more at the pump, a draft government report shows that oil companies stand to enjoy an ever larger windfall from royalty relief granted by Washington to encourage deep-water drilling in the Gulf of Mexico.

The Government Accountability Office report — reviewed by Politico — suggests that the foregone royalties could reach $53 billion, depending on the outcome of industry lawsuits and what critics contend was a lapse in administration under President Bill Clinton.

The companies took risks and paid an estimated $2 billion more in bonus payments to get the leases. But the potential loss in long-term government revenues is 25 times greater than those gains upfront, and the imbalance will only get greater if oil prices rise higher.

The problem comes back to an on-off-on-again history of whether the mandated relief, begun in the 1990s, should be conditioned on oil prices.

The GAO attributes up to $14.7 billion of the $53 billion to leases granted in 1998 and 1999 without any stipulation that royalty relief would be suspended if oil prices rose above a set price threshold.

That two-year holiday was at odds with what had been the practice for leases in 1996 and 1997 and again in 2000 — all of which used a price threshold that is the equivalent today of about $36 per barrel.

The futures price for a barrel of oil closed at $132.19 in New York on Friday — almost $100 higher.

GAO estimates that the government could also lose as much as $38.3 billion on the stricter leases if the industry wins a pending lawsuit challenging the Interior Department's authority to impose price thresholds.

Although still in draft form, the 21-page GAO report is significant; it is the first major attempt to update past estimates to reflect the rocketing rise in energy prices over the past year and to take a more thorough look at production levels, the other great cost multiplier.

A GAO report in April 2007, for example, relied on various scenarios pegging oil at $50 to $70 per barrel. The new GAO draft now goes up to $100 a barrel as it tries to project losses over the life of the leases, about 25 years.

The $53 billion total, for example, reflects both the $100-per-barrel price and relatively high production. Under a lower production scenario, the total losses would be about $30 billion. But in both cases, GAO concedes the $100-per-barrel price doesn't keep abreast of the markets.

Beyond price, GAO's findings scale back earlier estimates by Interior's Minerals Management Services, which critics say were overly optimistic in their assumption of production levels.

At a time of rising gas prices and political resentment toward the oil industry, the GAO report could prove a valuable tool for Democrats, who, since coming back into power last year, have tried repeatedly to recover a portion of the foregone revenues.

The House last year passed legislation seeking to pressure companies holding the 1998 and 1999 leases to renegotiate the terms. And Senate Energy and Natural Resources Committee Chairman Jeff Bingaman (D-N.M.) has pressed for a 13 percent excise tax to try to recoup the foregone revenues.

The background to the fight is the Deep Water Royalty Relief Act adopted in November 1995, a year after Republicans won control of Congress.

The goal then was to spur production by allowing companies to enjoy royalty-free treatment for a set volume of oil and gas if they drilled in waters at least 200 meters in depth in the central or western portion of the Gulf of Mexico. The mandated exemption applied to leases from 1996 through 2000, and the amount of royalty-free production — which increased as companies went into deeper waters — generally ranged from about 17.5 million barrels to 87.5 million barrels of oil or its equivalent in natural gas.

These mandates expired in late 2000, and while leases since then have provided royalty relief, the terms have been substantially less generous. Nonetheless, as more production from the 1996-2000 leases has come on stream, the foregone royalties have become more of an issue, given the record profits enjoyed by many major oil companies.

At the time of the 1995 act, no one foresaw today's prices. When Interior first set a threshold — about $28 in 1994 dollars — monthly oil prices were running between $17 and $19 a barrel.

That $28-per-barrel threshold has since risen to about $36 in current dollars. But as seen with Friday's closing prices, it is a far cry from today's markets.

"There are no guarantees, however, about what future prices will be," GAO cautions. "For example, oil prices have topped at $120 per barrel since we did our analysis for this report — but it is also possible that prices could fall below our lower price assumptions."

Bush Eyes Unprecedented Conservation Program
NPR, May 23, 2008; http://www.npr.org/templates/story/story.php?storyId=90766237

The Bush administration is considering launching one of the biggest conservation programs in U.S. history.

If implemented, President George W. Bush could, with the stroke of a pen, protect vast stretches of U.S. territorial waters from fishing, oil exploration and other forms of commercial development. The initiative could also create some of the largest marine reserves in the world — far larger than national parks like Yellowstone or the Grand Canyon.

The White House is thinking about taking "big steps, not small ones," says Jack Sobel, a senior scientist at the Washington-based Ocean Conservancy, an environmental group.

A spokesman for the White House Council on Environmental Quality confirmed that the administration is considering the initiative but declined to discuss details, saying they are still under review.

The idea is drawing strong support from conservationists who typically have been harshly critical of the Bush administration's overall environmental record. But some of the possible reserves are already attracting opposition from local leaders and industry groups and from some members of Congress.

National Monuments in the Sea

Conservationists say that CEQ officials last year invited a small number of ocean advocates to an unusual, closed-door meeting to discuss the idea. The White House asked them to help identify potential reserves in waters

within the United States' "exclusive economic zone," which extends 200 nautical miles out from the mainland and U.S.-owned islands around the world.

The idea, says Sobel, was to highlight areas where President Bush could create "marine monuments" under the Antiquities Act of 1906. This law gives the president broad powers to protect areas of "historic or scientific interest" without congressional approval.

Administration officials said they wanted things they could do before they left office, says Sobel. "They [also] wanted things that they could do without tremendous political blow back … [but] would have a conservation impact."

The groups took the invitation seriously, in part because Bush, in 2006, used the Antiquities Act to create one of the world's largest marine reserves, around the Northwestern Hawaiian Islands.

The groups — along with government agencies and other interested parties – ultimately developed a "wish list" that included about 30 potential marine monuments. They ranged from small reserves in U.S. coastal waters to vast swaths around U.S. territories in the distant Central Pacific. The candidates stretched "from Bar Harbor, Maine, to Dutch Harbor, Alaska" and beyond, says Jay Nelson of the Washington-based Pew Environment Group.

On the Short List

The White House has now shortened that list to about five finalists, say scientists involved in the process. The list hasn't been released to the public, and a CEQ spokesman says changes are still possible. But conservation groups have identified some of the leading nominees.

By far the most ambitious proposal is to protect more than 600,000 square miles around a number of small, mostly uninhabited islands in the Central Pacific. The islands — including Palmyra, Howland and Baker — are surrounded by biologically rich coral reefs and are home to huge seabird colonies. If implemented, the reserve would be among the largest in the world and about three times as large as the Hawaiian monument.

Another proposal calls for protecting more than 100,000 square miles of notoriously rough waters around the Northern Mariana Islands, in the Western Pacific. The area includes the 36,000-foot-deep Marianas Trench.

"It's the deepest point in the world," says Nelson. "If you dropped Mt. Everest in it, there would be a mile of water above the mountain."

Another proposal is to place a 500-square-mile reserve around Rose Atoll in the South Pacific east of Australia.

Nelson says it's important to protect these areas before fishing or energy companies begin to exploit them. The same argument is being made in favor of two other potential monuments closer to the U.S. mainland. One would protect a massive network of deep-water corals off the coasts of Florida, Georgia and the Carolinas. The other would protect coral reefs and ridges found mostly in the Gulf of Mexico.

"Once somebody's fishing there it will be a difficult and contentious fight," says Mike Hirschfeld of the nonprofit group Oceana. "It's simpler to set these areas aside when there isn't a problem rather than wait for one to develop."

A 'Blue Legacy' for President Bush

An array of ocean advocates — both Democrats and Republicans — are urging the White House to forge ahead with the proposals, saying it would enable President Bush to build a "blue legacy" that would make him a major figure in conservation history.

"These would all be terrific additions to what is already President Bush's greatest environmental legacy," the Hawaiian monument, says James Greenwood, a former Republican congressman from Pennsylvania, who now heads the Biotechnology Industry Organization. Greenwood, who has close ties to the White House, says that he has been lobbying Bush for years to take major action on ocean conservation.

Bush could become the "Teddy Roosevelt of the seas," conservationists say. President Theodore Roosevelt protected about 230 million acres in new parks and forests, notes Elliott Norse of the Marine Conservation Biology Institute in Washington. Bush has the chance "to protect more," he says.

Typically, creating marine reserves requires the approval of Congress and an extensive public comment process. By using the Antiquities Act, the White House can sidestep those requirements. President Bill Clinton, for instance, used the law to unilaterally protect a huge chunk of Utah, angering many state and local politicians. But a CEQ spokesman said that if the current initiative moves forward, it will very likely include some kind of public comment process.

Local Hurdles

There is already opposition to several of the potential reserves. This month, Republican Sen. David Vitter of Louisiana said he didn't like the plan to protect corals in the Gulf of Mexico, arguing that the economic consequences are "potentially grave," particularly for the fishing industry. Members of Congress from states along the Gulf also floated, and then withdrew, legislative language that would have prevented the government from spending money to establish the monument.

Out in the Pacific, local politicians and commercial interests also are voicing opposition to a Marianas Trench monument.

"We don't even have a voting member in Congress, and we've got the president of the U.S., who basically could slam the door on any future potential that is there," says John Gourley, an environmental consultant on the island of Saipan, who has worked for the fishing industry. "[We] should be able to use these resources in an environmentally sensitive manner."

A decision on the initiative could come within a month.

Supply-demand imbalance boosts oil prices
San Francisco Chronicle, May 25, 2008; http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/05/26/BUHH10S61B.DTL

Even as the cost of crude oil has soared in recent years, the amount pumped from the ground hasn't.

Worldwide oil production has barely budged, despite record prices. Since the start of 2004, oil's price has gone from $33 per barrel to $132. Production, meanwhile, has risen just 1.8 percent, to 84.6 million barrels per day.

That's not enough to keep pace with the world's growing thirst for oil, which has increased 3.7 percent during the same time. And the imbalance between supply and demand keeps pushing prices higher. It's one of the main reasons gasoline now costs more than $4 per gallon.

This isn't the way economics are supposed to work. When a product is in short supply, the price rises, and the companies that make it usually produce more so they can cash in. Supply eventually outstrips demand and the price goes down.

Faced with rising global demand and record prices, the oil companies have a powerful incentive to find, pump and sell as much crude as they can. Instead, they're having a hard time keeping their output level, much less expanding it. Big, untapped oil fields - often called "elephants" in the industry - are harder and harder to find.

"There aren't many elephants or super-fields left," said KenMedlock, an energy research fellow at Rice University's Baker Institute for Public Policy. "The major (companies) are looking for places to make large investments, but they haven't found many."

The Organization of the Petroleum Exporting Countries, meanwhile, refuses to pump more oil, saying there's enough on the market. But that refusal may mask problems within the cartel, analysts say. While some OPEC countries could increase production if they chose, others such as Iran and Venezuela haven't invested enough money in their oil fields and have seen their production decline as a result.

"The best they're going to do is plateau," said David Kirsch, director of market intelligence for the PFC Energy consulting firm.

At the peak?
Stagnant production over the past few years makes some wonder whether the dreaded moment of "peak oil" has arrived.

Petroleum is a finite resource, and sooner or later, global production of it will peak before going into an irreversible decline. No one knows for certain when that moment will hit. It's the kind of milestone that can only be seen in retrospect, after years of falling production. But the fact that oil companies have not yet been able to ramp up their output to capitalize on today's prices alarms people who believe peak oil is upon us.

"It's a strong signal that global oil production is probably peaking about now," said Richard Heinberg, senior fellow at the Post Carbon Institute think tank in Sebastopol. Heinberg has popularized the notion of peak oil in a series of books.

"That's not to say we won't see another month or two of higher production, here or there," he said. "But we're on the plateau."

Many if not most oil industry analysts disagree. A few even argue that enough new wells will be drilled in the next few years to create an oil glut and lower prices.

"We're projecting by the end of 2009 we may actually be in a surplus," said Frank Verrastro, director of the energy program at the Center for Strategic and International Studies.

But even if the glut materializes, it won't last long, he said. Demand is rising too quickly for that, in such places as China, India and the Middle East.

"There's this growing concern that by the middle of the next decade, if demand keeps rising, there's going to be a gap," Verrastro said.

In the oil industry, there's always a lag between rising prices and rising production. Oil fields take years to find and develop, and the contracts to pump and market their oil can last for decades. Oil companies often hesitate to commit themselves when prices first start rising, because the increase could prove to be short-lived.

"Companies, early on, weren't really sure the prices were going to hold," Verrastro said. "Even if you could get the people and you get the (drilling) rigs, you didn't want to lock yourself into an agreement that lasts 30 years."

The last time oil prices hit a historic high - in 1981, after oil industry deregulation and the start of the Iran-Iraq War - production didn't rise for the next five years. By the end of the decade, the market was swamped with crude, leading to years of low prices for both oil and gasoline.

The global oil market, however, has changed substantially since then.

The need for oil is rising in parts of the world that, 20 years ago, used very little. Large, undeveloped oil fields are scarce. The fields that oil companies are finding now tend to be in hard-to-reach places, like the bottom of the sea. And oil-rich countries have become much more assertive in their dealings with the big oil companies, sometimes insisting on business terms that drive the companies away.

Production prices up
At the same time, prices for steel and other materials needed to build oil wells and offshore platforms have skyrocketed. Skilled oil field workers and engineers are in short supply.

"There are constraints in the supply chain at pretty much every single step of the process," Kirsch said. "Drilling operations? You're facing a three-year backlog."

As a result, Kirsch said, the United States needs to rethink its energy policies, looking for ways to cut the demand for petroleum. That will help balance out sluggish growth in global oil production.

"Washington has always focused on supply," he said. "It's, 'We need to get OPEC to produce more, we need ethanol, we need to drill in ANWR (the Arctic National Wildlife Refuge).' Now, Washington needs to deal with the demand side of the equation."

Alaska Dems Are After Rep. Young's Seat, but a Republican May Get There First
CQ News, May 26, 2008

By Rachel Kapochunas, CQ Staff
Democrats have been salivating over the opportunity to unseat Republican Rep. Don Young as he seeks an 18th full-term as Alaska's lone House representative, but Republicans may beat them to the punch.
Republican Lt. Gov. Sean Parnell stands a strong chance of defeating Young in the party's Aug. 26 primary, according to recent polls and analysts, which would provide Democrats with a new opponent for the general election.
Young has drawn wide support over the years for his advocacy for his home state, but critics argue that his connections to a federal investigation into Alaska oil services company Veco Corp and its ties to political figures in the state have made him vulnerable for re-election this year. Opponents also note that the House has called for an investigation into an earmark for a Florida transportation project, which Young is accused of changing to possibly benefit a major supporter. Others believe Young's well-known rough-hewn manner is diminishing his effectiveness in the House and reflecting badly on the state.
Parnell, a lawyer and former state lawmaker, entered the House race just two months ago, but is backed by popular Republican Gov. Sarah Palin. Recent polls show Parnell besting or nearly breaking even with Young.
"It's time for a new messenger in Congress in Alaska," Parnell told CQ Politics.
Parnell is no stranger to challenging old guard Republicans in the state. He appeared on Palin's winning ticket when she ousted incumbent Republican. Gov. Frank H. Murkowski two years ago.
Parnell said there are clear similarities between his current House campaign and the 2006 election, which Murkowski, a longtime politician, entered with low approval ratings.
Parnell is campaigning on issues such as resource development, job creation, the nation's economy, establishing a natural gas pipeline and fixing high gas prices, in addition to what he calls "restoring trust issues," all things on which Parnell believes he can be more effective than the congressman.
"Voters appreciate the years he's given, but we also think it's time for new leadership," Parnell said of Young.
That theme is also being championed by the Democratic party.
Democratic state Rep. Ethan Berkowitz has emerged as his party's frontrunner for the House. When asked about the similar message of "change" that Berkowitz and Parnell share, Berkowitz responded that even though Parnell would be a new face in Congress, he hardly represents a new era in politics.
"Sean has been part of the Republican establishment dating back into the nineties," Berkowitz told CQ Politics.
Berkowitz, who ran for lieutenant governor in 2006, argued that he offers voters an opportunity to have a congressman of the majority party in Congress.
"Alaska's used a one-party strategy in a two-party congress," Berkowitz said he often states. "It's time for a two-party strategy."
The state typically votes Republican, but candidates in Alaska also must appeal to unaffiliated voters and third-party supporters who currently make up 60 percent of registered voters in Alaska.
CQ Politics rates the race No Clear Favorite.
Berkowitz' path to the Democratic nomination became clearer this month when former state Democratic chairman Jake Metcalfe dropped out of the race. Metcalfe said that an incident in which Metcalfe's staffer targeted Berkowitz by routing web users to potentially disparaging websites had created too much distraction for Metcalfe to continue his campaign.
The party's 2006 nominee, author Diane Benson, is also seeking a rematch with Young, but has trailed Berkowitz in fundraising.
Berkowitz reported to the Federal Election Commission just over $400,000 raised as of March 31, which included $2,500 from a political action committee related to Illinois Rep. Rahm Emanuel, Democratic Caucus Chair, and $4,000 from the campaign committee for California Rep. Howard L. Berman. Berkowitz also contributed just under $2,000 in personal funds to his own campaign. He was left with $287,000 on hand after expenses.
Benson reported $142,000 raised, $1,000 of which was donated by California Rep. Michael M. Honda's campaign committee in November and just under $1,000 came from Benson's personal finances. She reported $46,000 on hand as of March 31.

Parnell officially entered the race just days before the March 31 filing deadline and reported $26,000 raised in less than one week. State Rep. Gabrielle LeDoux, who is also competing for the GOP nomination, reported $214,000 raised through March 31, $94,000 of which was personal funds, and $158,000 on hand.

As expected, incumbent Young, Transportation and Infrastructure Committee chairman and former Resources (now Natural Resources) Committee chairman, has dominated in fundraising, having raised $884,000 through March 31. But the lawmaker has burned through $2 million in expenses thus far. More than $1 million has gone towards legal expenses.

Young and his staff have refused to comment on the federal investigation, citing its ongoing nature, but spokesman Mike Anderson acknowledged in an interview last week with CQ Politics that the investigation does negatively impact Young's election.

"When you've got these kinds of issues that you're faced with, whether they're true of false... those are issues that work against you," Anderson said.

Anderson conceded that the incumbent is "statistically even" with Parnell, but noted the campaign has been prepared for this level of competitiveness.

"The congressman acknowledged this was going to be a tough election. We weren't fooling ourselves about that," Anderson said, adding that because the campaign was prepared for a competitive race, they took the election seriously "from the beginning" and organized in advance for a contested election.

"That kind of strategy pays off," Anderson said.