

## Week in News: August 25-31, 2008

### **Rep. Bartlett pursues lonely energy crusade**

Baltimore Sun, August 31, 2008; <http://www.baltimoresun.com/news/nation/bal-te.bartlett31aug31.0.337043.story>

### **Gulf Coast Energy Companies In Shutdown Not Seen Since 2005**

WSJ, August 31, 2008; [http://online.wsj.com/article/SB122013789981586087.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB122013789981586087.html?mod=googlenews_wsj)

### **Lame-Duck Session Looking Likelier**

CQ Today, August 31, 2008;

<http://www.cq.com/document/display.do;jsessionid=825180AB4B60E268BFC68BB4C3AC7EC2.manono?matchId=64357671>

### **Sarah Palin and Big Oil**

Washington Post, August 31, 2008;

[http://newsweek.washingtonpost.com/postglobal/energywire/2008/08/sarah\\_palin\\_and\\_big\\_oil.html](http://newsweek.washingtonpost.com/postglobal/energywire/2008/08/sarah_palin_and_big_oil.html)

### **Oil Group Joins Alaska in Suing To Overturn Polar Bear Protection**

Washington Post, August 31, 2008; <http://www.washingtonpost.com/wp-dyn/content/article/2008/08/30/AR2008083001538.html?wpisrc=newsletter>

### **MMS:US Gulf Producers Shut In 77% Oil, 37% Gas Output As Gustav Looms**

CNN Money, August 30, 2008;

[http://money.cnn.com/news/newsfeeds/articles/djf500/200808301443DOWJONESDJONLINE000475\\_FORTUNE5.htm](http://money.cnn.com/news/newsfeeds/articles/djf500/200808301443DOWJONESDJONLINE000475_FORTUNE5.htm)

### **Best Hurricane Escape Plan: Ask Big Oil**

ABC News, August 29, 2008; <http://abcnews.go.com/Business/story?id=5679837&page=1>

### **Majority in Florida want to see offshore drilling**

The News-Press, August 29, 2008; <http://www.news-press.com/apps/pbcs.dll/article?AID=/20080829/GREEN/808290364/1075>

### **Debunking Democrats on Drilling**

FOX News, August 28, 2008; <http://www.foxnews.com/story/0,2933,412549,00.html>

### **Evacuations intensify as Gustav churns toward Gulf**

Houston Chronicle, August 28, 2008; <http://www.chron.com/disp/story.mpl/ap/business/5972365.html>

### **Senate energy plan's bipartisan support grows**

Oil & Gas Journal, August 27, 2008; [http://www.ogj.com/display\\_article/338075/7/ONART/none/GenIn/1/Senate-energy-plan's-bipartisan-support-grows/](http://www.ogj.com/display_article/338075/7/ONART/none/GenIn/1/Senate-energy-plan's-bipartisan-support-grows/)

### **Decision on Offshore Drilling To Test New Nominees**

WSJ, August 27, 2008; [http://online.wsj.com/article/SB121978533892374097.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB121978533892374097.html?mod=googlenews_wsj)

### **California County's Resolve Against Drilling Fades**

NYT, August 26, 2008; [http://www.nytimes.com/2008/08/27/us/27drill.html?\\_r=1&ref=us&oref=slogin](http://www.nytimes.com/2008/08/27/us/27drill.html?_r=1&ref=us&oref=slogin)

### **Oil industry may get first post-Katrina test**

CNN Money, August 26, 2008;

<http://money.cnn.com/news/newsfeeds/articles/apwire/7b731bf4b98bf469be994484c15fe7f4.htm>

### **House Democrats Push Energy Plan; In Senate, 'Gang of 10' Grows**

CQ Today, August 26, 2008;

<http://www.cq.com/document/display.do;jsessionid=D75970925F80D4DAB871BE46178EA261.upolu?matchId=64192082>

### **A Carbon Education**

WSJ, August 26, 2008; <http://online.wsj.com/article/SB121970784876071105.html>

### **Santa Barbara County supervisors expected to back offshore oil drilling**

Los Angeles Times, August 26, 2008; <http://www.latimes.com/news/local/la-me-oilvote26-2008aug26,0,5800487.story>

### **Pelosi lists conditions for OCS vote**

Oil & Gas Journal, August 25, 2008; [http://www.ogj.com/display\\_article/337832/7/ONART/none/GenIn/1/Pelosi-lists-conditions-for-OCS-vote/](http://www.ogj.com/display_article/337832/7/ONART/none/GenIn/1/Pelosi-lists-conditions-for-OCS-vote/)

### **Oil is the Word of the Week for Louisiana's Landrieu**

CQ Today, August 25, 2008; <http://www.cq.com/document/display.do;jsessionid=E5D3F00867FB61FE7D265A6C84BEB6E6.upolu?matchId=64138804>

### **Georges Bank drilling weighed**

The Boston Globe, August 25, 2008; [http://www.boston.com/news/science/articles/2008/08/25/georges\\_bank\\_drilling\\_weighed/](http://www.boston.com/news/science/articles/2008/08/25/georges_bank_drilling_weighed/)

### **U.S. Loses Oil-Lease Appeal**

WSJ, August 25, 2008; <http://online.wsj.com/article/SB121967839911669403.html>

### **Pelosi on Natural Gas: Fossil Fuel or Not?**

WSJ, August 25, 2008; <http://blogs.wsj.com/washwire/2008/08/24/pelosi-on-natural-gas-fossil-fuel-or-not/>

### **Let's put politics aside and vote on energy plan**

Star Tribune, August 25, 2008; <http://www.startribune.com/opinion/commentary/27293044.html?elr=KArksUUUU>

### **Why doesn't U.S. join Law of the Sea treaty?**

San Francisco Chronicle, August 25, 2008; <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/08/25/EDJL12GS9G.DTL&hw=law+of+the+sea+treaty&sn=001&sc=1000>

### **Drilling Boom Revives Hopes for Natural Gas**

NYT, August 25, 2008; [http://www.nytimes.com/2008/08/25/business/25gas.html?\\_r=1&scp=1&sq=drilling%20boom&st=cse&oref=slogin](http://www.nytimes.com/2008/08/25/business/25gas.html?_r=1&scp=1&sq=drilling%20boom&st=cse&oref=slogin)

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### **Rep. Bartlett pursues lonely energy crusade**

Baltimore Sun, August 31, 2008; <http://www.baltimoresun.com/news/nation/bal-te.bartlett31aug31,0,337043.story>

Republican has often warned about oil dependence, but is anyone listening?

By Matthew Hay Brown

Charts at the ready, notes spread out before him, Rep. Roscoe G. Bartlett begins another address in the House of Representatives on the dangers of America's dependence on oil.

The Western Maryland Republican has given nearly 50 such speeches at the Capitol in the past three years, most of them variations on a theme: that a coming decline in petroleum production, coupled with growing demand for energy, will have a calamitous impact on the global economy.

"The world as a whole, and our country included, has appeared to behave as if these fossil fuels were inexhaustible," the former university professor lectures. "What we'll see shortly is that - as everyone will know, if you stop and think about it - that oil is finite."

This should be Bartlett's moment. With concerns growing about the impact of the use of fossil fuels on climate change, officials warning about the national security implications of relying on foreign oil, and the price of gasoline surpassing \$4 a gallon, energy has become the nation's leading domestic political issue.

The 16-year House veteran has long prepared for the debate. A research scientist and inventor - he has a doctorate in human physiology and holds patents on breathing equipment used by astronauts, pilots and firefighters - he has spent years talking about, and getting ready for, a looming crisis.

As a developer, he has been building houses with passive solar energy since the 1980s. His farmhouse in Frederick is warmed by a combination of solar energy and a wood stove; a second home in West Virginia is off the grid entirely.

He became the first member of Congress to drive a hybrid when he bought a Toyota Prius in 2000. He founded the Congressional Peak Oil Caucus five years later to promote conservation and investment in alternative energy sources.

But on this afternoon, the House chamber is virtually empty. The legislative week is over, and Congress has left town. C-SPAN will record his presentation, but few, if any, of his colleagues will ever see it.

As the discussion around rising energy costs degenerates into a partisan debate over where to drill next, Bartlett is having trouble getting a hearing.

"It is a little disappointing to see the lack of interest in Roscoe's depth of knowledge on this issue," says Rep. Wayne T. Gilchrest, a fellow Maryland Republican. "He tries to educate the leadership on both sides, Democrats and Republicans. Unfortunately, they don't listen closely enough."

Bartlett is undeterred.

He refers frequently to reports commissioned by the federal government that predict dire consequences for failing to prepare for the moment when petroleum production begins to decline - a scenario known as peak oil.

The Government Accountability Office warned last year that a quick decline "would require sharp reductions in oil consumption, and the competition for increasingly scarce energy would drive up prices, possibly to unprecedented levels, causing severe economic damage. While these consequences would be felt globally, the United States, as the largest consumer of oil and one of the nations most heavily dependent on oil for transportation, may be especially vulnerable."

Bartlett believes that moment may now be arriving.

"You will never know that oil has peaked until you look back at it," he says. "This plateau [in global production] we've been on now for three years may in fact not be peaking. It may be a little plateau; there may be a pickup.

"I don't think there will be."

Bartlett is counseling "aggressive conservation," coupled with government-backed investment in renewable energy - a program he describes as requiring "the total commitment of World War II, the technology focus of putting a man on the moon and the urgency of the Manhattan Project."

The emphasis has put him out of step with many fellow Republicans. House Minority Leader John A. Boehner calls Bartlett "a tireless advocate for responsible energy policies."

But during the current debate, Boehner and other party leaders have focused not on using less or investing in alternatives, but on developing domestic oil production by opening the Arctic National Wildlife Refuge and the Outer Continental Shelf to drilling.

"I'm not really in sync with either side," Bartlett says. "Most of the Republicans, I can't get in their head, of course, but from what they say, I gather that they believe that the problem will go away if we drill and that we wouldn't even have the problem now if the Congress had done what they wanted to do 10 years ago and started drilling."

While his party talks about a multifaceted approach to energy, Bartlett says, members are paying only "passing lip service" to what he calls "the most urgent first step": conservation.

"I don't think the average Republican believes that there's any such thing as peak oil," he says.

It isn't the first time Bartlett, despite a lifetime American Conservative Union rating of 93 out of 100, has clashed with colleagues.

When former Vice President Al Gore appeared last year on Capitol Hill, Bartlett chided colleagues skeptical of climate change, saying that "it's possible to be a conservative without appearing to be an idiot."

When Gore's successor, Vice President Dick Cheney, asked Bartlett to vote in favor of exploring ANWR, Bartlett says, he responded with a question: "If you could drill in ANWR tomorrow, what would you do the day after tomorrow?"

"I don't know that very many of my colleagues are thinking about the day after tomorrow," Bartlett says. With 10 children, 16 grandchildren and two great grandchildren, he says, "I think a lot about the day after tomorrow."

Bartlett now has relented on drilling. He has signed on as a co-sponsor of bipartisan legislation that would open the Outer Continental Shelf to exploration - because, he says, it also includes a five-year extension in tax credits for investment in alternative energy.

That move has opened him to charges of inconsistency from Jennifer Dougherty, his Democratic opponent this fall in the 6th Congressional District.

"He has flipped his position and his votes, so you really don't know what he'll do if he gets elected for a ninth term," her campaign said in a recent release.

Bartlett says there is no inconsistency.

"I have always said that I would vote for drilling when we used the revenues we got from drilling to invest in alternatives, he says. "I have not changed. Other members have changed - they've come to where I've been all along."

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### **Gulf Coast Energy Companies In Shutdown Not Seen Since 2005**

WSJ, August 31, 2008; [http://online.wsj.com/article/SB122013789981586087.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB122013789981586087.html?mod=googlenews_wsj)

By RUSSELL GOLD, ANA CAMPOY and BRIAN BASKIN

A powerful Hurricane Gustav stormed into the Gulf of Mexico and by Sunday afternoon appeared likely to churn through one of the world's most crowded offshore oil and natural gas regions – and land a roundhouse punch to a critical oil import facility.

The oil industry is completing a full-scale shut down, evacuating the last workers from hundreds of manned offshore platforms and shutting down at least nine large Louisiana refineries. The industry now is waiting to see where Gustav heads and how powerful it becomes.

The energy industry faces the prospect of losing more than one million barrels a day of offshore oil production until later this week, and another one million barrels a day if the Louisiana Offshore Oil Port, or LOOP, sustains damage and can't reopen to accept imports from tankers quickly. LOOP is an offshore delivery point which handles 10% of U.S. oil imports. Weather forecasters say Hurricane Gustav could make landfall Monday only a few miles west of LOOP. Such a disruption would force producers and refiners to scramble to find new ways to import oil from sources as diverse as Saudi Arabia and Venezuela.

"It remains likely that Gustav will prove to become a worst-case scenario for the [oil] producing region and places the heart of the oil production region under a high risk of sustaining significant or major damage," says Jim Rouiller, senior energy meteorologist with Planalytics.

The storm lost some power overnight, but still has sustained winds of 115 miles per hour and is expected to pick up strength again as it moves across the gulf's warm waters.

Before it reaches shore, at its current track, Gustav will pass close to several major deepwater oil and gas production platforms. These include Royal Dutch Shell PLC's Ursa and Mars platforms and Murphy Oil Corp.'s Medusa and Thunder Hawk platforms. Italian company Eni SpA paid nearly \$5 billion last year for a package of

offshore assets. Now, two of its new properties – Morpeth and Devil's Tower – appear to be in harm's way. BP PLC's ill-fated Thunder Horse is also likely to see high winds and waves. A giant floating platform, Thunder Horse was supposed to begin producing in 2005, but was found listing heavily after a close encounter with Hurricane Dennis. It had only begun producing in June.

The shut down of the energy complex means that Gustav's effects are sure to linger for days, even if the storm weakens before landfall and does minimal damage. It takes time to shut down the massive complex of offshore platforms, pipelines, processing plants and refineries, and more time to restart them. The Gulf Coast energy industry will likely remain largely out of service well into next week.

Once Gustav hits land, the refining industry is bracing for the worst. ConocoPhillips, Exxon Mobil Corp., Royal Dutch Shell PLC, Valero Energy Corp. and others said they were stopping operations at refineries, turning off about 13% of the U.S. capacity to turn crude oil into gasoline and other petroleum products. The storm could potentially affect refineries in other major refining hubs, including Port Arthur in Texas and Lake Charles, in Louisiana, with heavy winds and rain.

Refiners with operations along the eastern Texas Coast are running at reduced capacity and some are considering halting operations as well. This would idle a significant portion of the U.S. refining infrastructure at least until the storm passes through, and longer if equipment is damaged. Texas and Louisiana account for more than 40% of the country's refining capacity. Worries mounted Sunday that if LOOP remains out of commission, crude oil supplies could be tight even if refineries are able to restart quickly.

Current supplies of refined products are enough to take the country through the days following the storm without prices spiking too high or for too long, said Doug McIntyre, an analyst with the federal Energy Information Administration.

The growing strength of Gustav brought back memories of the devastating power of Hurricanes Katrina and Rita. The storms kept offshore production at less than half pre-storm levels for more than two months, as the industry struggled to restore pipelines and fix damage platforms. The winds and flooding that accompanied the storms hobbled more than one-quarter of U.S. crude oil refining capacity.

Sunday afternoon, the pace at which the industry was closing up shop was driven home by the daily report of offshore production from the U.S. Minerals Management Service. As of noon, 96.3% of offshore oil production and 82.3% of natural gas production had been shut off by companies preparing for the storm. Over one million barrels of crude oil production has shut down – an amount equivalent to more than 50% of daily oil imports from the Persian Gulf.

In response to the storm, the New York Mercantile Exchange opened electronic trading early on Sunday, giving investors greater time to hedge their bets ahead of Gustav. So far commodity traders appear reluctant to act until Gustav makes landfall and its damage is assessed. Lackluster demand for refined products due to the weak economy and high gasoline prices seems to also be weighing on their decisions. At the market's open, benchmark crude futures were up \$2.84, or 2.4%, at \$118.30 a barrel amid light trading.

"I don't know if the market is more concerned about softening in demand than they are for a lack of production," said Phil Flynn, analyst at Alaron Trading Corp. in Chicago.

On Saturday afternoon, the Henry Hub, a major natural-gas pipeline hub and the pricing point for futures contracts traded on the NYMEX, declared force majeure effective today. The last time this occurred, in the wake of Hurricane Rita in 2005, it caused a frenzy among energy traders, but on Sunday, natural gas futures only edged slightly higher to \$7.971 a million British thermal units from \$7.943 a million British thermal units on Friday.

For drivers, the bad news may only be beginning. Retail gas prices around the country reversed a 40-day-long slide on Friday and rose again on Saturday and Sunday, according to AAA. Oil analysts worried that if Gustav smashes through offshore oil fields and into Louisiana's cluster of refineries, gasoline prices could jump higher quickly.

Drivers already are experiencing shortages in some areas of Louisiana, distributors say. "We can't get all the fuel that we need," said Jim Bickley, president of Cracker Barrel Convenience Stores, a Baton Rouge, La.-based gas retailer. Shell Oil Co., a unit of Royal Dutch Shell PLC said Saturday about 10% of its branded stations in New Orleans, Baton Rouge, Lafayette and Lake Charles ran out of fuel Saturday morning.

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## Lame-Duck Session Looking Likelier

CQ Today, August 31, 2008;

<http://www.cq.com/document/display.do;jsessionid=825180AB4B60E268BFC68BB4C3AC7EC2.manono?matchId=64357671>

By Alan K. Ota, CQ Staff

House Minority Leader John A. Boehner of Ohio, the chairman of the Republican National Convention, says Hurricane Gustav and the fight over offshore oil drilling have made a lame-duck session of Congress a near-certainty after the Nov. 4 election.

Boehner said he doubted lawmakers could wrap up their work in the closing three-week session of Congress that is set to start Sept. 8. "There's going to be a lame-duck. The only question is how long and what will be covered," Boehner said in an interview Sunday. "Hurricane Gustav does add more impetus. Look at the context, what we have to do — the alternative minimum tax, tax extenders, appropriations. You've got a whole list of issues that are going to be sitting out there, that have to be dealt with. And no one is going to know by the end of September what the outcome of the election will be. And the outcome of the election will have some bearing on what happens in November and December. Put all that together, and there's going to be a lame-duck session. No question."

### Energy Legislation at Issue

Boehner said Republicans would continue to insist on a floor vote on their "all of the above" energy proposal, which would end the moratoriums on offshore oil drilling and development of Western oil shale. Speaker Nancy Pelosi, D-Calif., has called for a comprehensive energy bill that would expand domestic oil production. Senior Democrats such as House Natural Resources Chairman Nick J. Rahall II, D-W.Va., said that would likely entail a modification, but not elimination, of the offshore oil drilling ban, with no change in the moratorium on Western oil shale development.

Boehner said he and other Republicans want the moratoriums on offshore oil drilling and Western oil shale development to end, as scheduled, on Sept. 30. "We want the moratorium to expire and not be extended," he said.

Senior GOP aides said the fate of a lame-duck session would likely depend on the outcome of the general election. They said they doubted Democrats would have interest in a lame-duck session if Sen. Barack Obama, D-Ill., wins the presidency. However, they said, there might be more interest in such a session if Sen. John McCain, R-Ariz., wins and congressional Republicans gain seats or lose few seats in the House.

### Mixed Messages From Leaders

Pelosi said last week she was not planning for a lame-duck session. "I'm not thinking in that direction," she said Aug. 24. House Majority Whip James E. Clyburn, D-S.C., however, said he believed a lame-duck session was becoming increasingly likely because of an impasse on whether to extend the moratorium on offshore oil drilling in a must-pass continuing resolution to keep the government operating.

"We have not talked about it yet. But I think there's a very good chance that we might have a lame-duck," said Clyburn, who has been a leading proponent of generous recovery funding to help residents of Louisiana and Mississippi in the aftermath of Hurricane Katrina and will likely be a champion of similar efforts to help victims of Hurricane Gustav.

House Majority Leader Steny H. Hoyer, D-Md., said much would depend on ongoing negotiations with the White House and on what language on offshore drilling would be acceptable to President Bush. "We won't send them something they say they're not going to sign," Hoyer said.

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## Sarah Palin and Big Oil

Washington Post, August 31, 2008;

[http://newsweek.washingtonpost.com/postglobal/energywire/2008/08/sarah\\_palin\\_and\\_big\\_oil.html](http://newsweek.washingtonpost.com/postglobal/energywire/2008/08/sarah_palin_and_big_oil.html)

By Steve Mufson

Energy Wire talked to Gov. Sarah Palin in May about her views on Big Oil, offshore drilling and a long-awaited, expensive and controversial natural gas pipeline for which she has been pushing hard. With McCain's announcement Friday, suddenly her comments seem a lot more interesting.

Many environmental and Democratic activists attacked her yesterday for being too close to Big Oil. They dislike her support for drilling in environmentally sensitive areas, her skepticism about alternative energy sources, and her opposition to listing polar bears as an endangered species. "Sarah Palin reinforces John McCain's plan to continue the Bush-Cheney big oil energy policies," said Daniel J. Weiss, senior fellow at the Center for American Progress. "Palin may be new, but her big oil energy agenda is very old-fashioned."

However, back in May Palin portrayed herself as standing up to the biggest oil companies in discussions over a new \$30 billion natural gas pipeline, talks that have drawn out over many years. (When I talked to her then, she already knew that McCain was considering her for the vice presidential spot on the Republican ticket.)

First, some important context: Palin represents one of the few real petro-states within the United States. Big Oil is big business in Alaska, and the state relies on oil and gas tax and royalty revenues for more than 80 percent of its budget. The state's coffers runneth over; every resident of Alaska gets a check from the state, a dividend for his or her share of the oil and gas extracted from the ground. Oh, and Palin's husband works as a field operator for BP, one of the main operators on the North Slope. Oil interests are largely Alaska's interests.

Palin is aligned with the oil industry on two key issues. She favors drilling in the Arctic National Wildlife Refuge and many offshore areas. At the same time, she has bargained hard over the gas pipeline and seems to be pushing the long-stalled project forward. She has said that TransCanada can build the pipeline and has convinced the state legislature to back \$500 million in grants and benefits for a company to get the permit and design process going.

Back in May, before Republican presidential candidate Sen. John McCain (R-Ariz) changed his position to favor offshore drilling, I asked Palin if there were any place she would consider off-limits to drilling. She said she supports drilling in the Chukchi Sea, where oil companies such as Royal Dutch Shell earlier this year bid to drill, but she wavered on Bristol Bay, which President Bush opened up for drilling early last year. She said that "the fear would be that our very rich fish resources would be put in jeopardy."

Palin has tangled with several major oil companies over a construction strategy for a Trans-Alaska natural gas pipeline. Palin wants to construct a natural gas line big enough to be used not only by the handful of major companies that now dominate oil and gas extraction on Alaska's North Slope, but also by other smaller companies that might be interested in new exploration.

Earlier this year, Palin signed an agreement with a Canadian company, TransCanada, allowing it to start permitting and other work for construction of a pipeline despite opposition from some of the major oil companies - Exxon Mobil, Conoco Philips and BP -- working on Alaska's North Slope. Those companies have argued that the pipeline, which would cost an estimated \$30 billion, was not economically feasible. Palin got the state of Alaska to give \$500 million to start the process if TransCanada would put up the same amount to get started. The project will take more than a decade to complete.

That would come none too soon for Alaska. Oil production from the state's reservoirs has begun to decline.

As Palin said in May:

"Getting this huge supply flowing is key for our national security and energy independence. The key to that is the expandability of this pipeline. There are other companies besides our oil producers who want the opportunity and vehicle to get gas to market. We're going to open up the North Slope basin to these explorers and not just have the same few companies. We're going to allow more exploration and development this way which is what this country needs to survive."

Palin was initially unhappy with oil companies' proposed financial terms for building a gas pipeline. "Another condition that was unacceptable to me, unacceptable to Alaskans, that these companies were negotiating with the prior administration [was] to lock up [pipeline transit] rates for decades," said Palin. "There may need to be adjustments down the road. We can't bind or tie the hands of future legislators."

Palin insisted that she stood a safe distance from BP and other major integrated firms. "I'm not anti-industry, I'm not anti-production. The oil company chief executives I respect are doing what the shareholders have mandated that

CEO to do: look out for their bottom line. My bottom line for the state is to do the same for Alaska's shareholders. The people of Alaska own the resources. I have to look after their interests."

Though her husband Todd works for BP, Palin said that, "BP is not my biggest fan." She said that the three big operators on the North Slope -- BP, Conoco Phillips and Exxon Mobil - "had a sweet deal" with the prior Alaska state government when negotiating terms for the proposed natural gas line. She said she has changed those terms. "I want America's conditions to be met," she said.

Palin acknowledged that a lot is at stake for Alaska when it comes to oil and gas. "About 85 percent of our state budget hinges on that oil production," Palin said. But she said that "with oil at \$130 a barrel, it is a two-edged sword," one "resulting in the family pocketbooks evaporating while state coffers fill up."

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### **Oil Group Joins Alaska in Suing To Overturn Polar Bear Protection**

Washington Post, August 31, 2008; <http://www.washingtonpost.com/wp-dyn/content/article/2008/08/30/AR2008083001538.html?wpisrc=newsletter>

By Kari Lydersen

CHICAGO -- The American Petroleum Institute and four other business groups filed suit Thursday against Interior Secretary Dirk Kempthorne and U.S. Fish and Wildlife Service Director H. Dale Hall, joining Alaska Gov. Sarah Palin's administration in trying to reverse the listing of the polar bear as a threatened species.

On Aug. 4, the state of Alaska filed a lawsuit opposing the polar bear's listing, arguing that populations as a whole are stable and that melting sea ice does not pose an imminent threat to their survival. The suit says polar bears have survived warming periods in the past. The federal government has 60 days from the filing date to respond.

One of the plaintiff in Thursday's lawsuit, the National Association of Manufacturers (NAM), lauded the choice of Palin as the Republican vice presidential nominee for reasons including her advocacy of Alaskan oil and gas exploration, which many fear could be affected by the bear's protected status.

NAM and the petroleum institute were joined in the lawsuit by the U.S. Chamber of Commerce, the National Mining Association and the American Iron and Steel Institute. They object to what they call the "Alaska Gap" in relation to the special rule the federal government issued in May in conjunction with the polar bear's protected status. The rule, meant to prevent the polar bear's status from being used as a tool for imposing greenhouse gas limits, exempts projects in all states except Alaska from undergoing review in relation to emissions.

NAM Vice President Keith McCoy said the group sees the rule as unfairly subjecting Alaskan industry to greenhouse gas controls and also opening a back door for greenhouse gas regulation nationwide.

"This could significantly curtail oil and gas exploration," especially on Alaska's North Slope, he said. "It's discrimination against the state of Alaska. During a time when gas prices are high and we need to look at all options, to issue something that shuts off a viable resource" is ill-advised, he said.

The lawsuit, filed in U.S. District Court for the D.C. Circuit, notes that greenhouse gas emissions worldwide contribute to global warming. It says projects in Alaska should not be subject to special scrutiny because of the polar bear's status.

Kassie Siegel, climate program director for the Center for Biological Diversity, which originally petitioned to list the polar bear as an endangered species in 2005, decried the assertion in the Alaska suit that science does not prove polar bear populations are declining. The center is also suing the federal government, seeking to change the polar bear's official status from "threatened" to "endangered."

"The amazing thing about this litigation is that the governor of Alaska is so anti-environmental that she is suing the Bush administration over a claimed overabundance of protections for the polar bear," Siegel said. "It's just amazing."

Palin chose the grizzly bear over the polar bear and other candidates for the state's commemorative quarter, which was released into circulation Tuesday.



There are now at least four federal lawsuits challenging aspects of the polar bear listing. In addition to the suits filed by Alaska, the industry groups and the Center for Biological Diversity, the trophy-hunting group Safari Club International filed suit opposing a federal ban on importing skins or other "trophies" of polar bears killed in Canada.

Siegel said the Alaska and industry lawsuits opposing the listing mean they are worried that the special rule meant to prevent action on greenhouse gases won't hold up in the long run.

"I think it shows the strength of our legal theory," she said. "Basically we said, 'List the polar bear, and when you list the polar bear, you're going to have to do something about greenhouse gas emissions.' The fact all these other parties are suing over it shows the Bush administration doesn't have a legal leg to stand on -- they know the administration has to do something about greenhouse gas emissions."

The lawsuit is American Petroleum Institute et al v. Kempthorne et al.

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### **MMS:US Gulf Producers Shut In 77% Oil, 37% Gas Output As Gustav Looms**

CNN Money, August 30, 2008;

[http://money.cnn.com/news/newsfeeds/articles/djf500/200808301443DOWJONESDJONLINE000475\\_FORTUNE5.htm](http://money.cnn.com/news/newsfeeds/articles/djf500/200808301443DOWJONESDJONLINE000475_FORTUNE5.htm)

NEW YORK -(Dow Jones)- Energy producers have shut in approximately 77% of oil output and 37% of natural gas production in the Gulf of Mexico, as the industry shuts its activities ahead of the extremely powerful Hurricane Gustav, the U.S. Minerals Management Service said Saturday.

The agency said personnel have been evacuated from a total of 223 production platforms, equivalent to 31.1 % of the 717 manned platforms in the Gulf of Mexico.

Crew from 45 rigs have also been evacuated, as of 11.30 a.m. CST, equivalent to 37.2% of the 121 rigs currently operating in the Gulf.

According to the report, nearly 1 million barrels of daily oil production is now shut down. The last time this happened was in November 2005, after Hurricanes Katrina and Rita. In addition, 2.75 billion cubic feet of daily natural gas production is now shut down.

Gustav swelled into a fearsome Category 4 hurricane with winds of 145 mph on Saturday as Cuba raced to evacuate more than 240,000 people and Gulf residents to the north clogged highways fleeing New Orleans.

It could become a Category 5 storm over the Gulf of Mexico by Sunday, with winds of 160 mph according to the U.S. National Hurricane Center.

Platforms can take days to restart even when they come through a storm undamaged, as workers must be shuttled by helicopter back to offshore installations.

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### **Best Hurricane Escape Plan: Ask Big Oil**

ABC News, August 29, 2008; <http://abcnews.go.com/Business/story?id=5679837&page=1>

Companies Use a Fleet of Helicopters to Move Thousands of Workers to Safety

By SCOTT MAYEROWITZ

As a possibly devastating hurricane appears to head toward the Gulf Coast, an elaborate set of detailed evacuation plans are being set into motion, down to the last helicopter to fly people out.

Who is behind this expensive, military-style movement?

ExxonMobil, Chevron and Shell.

Say what you will about the federal government's past evacuation efforts and its current plans, but don't criticize big oil. The companies have the money, know-how and experience to move thousands of workers from offshore oil platforms and rigs to safety in a matter of days.

Just about every year, the companies with thousands of workers scattered on platforms across the Gulf of Mexico have to do a massive evacuation thanks to the threat of a hurricane.

It's a well-orchestrated operation involving hundreds of helicopters crisscrossing the gulf. And it's all done in what seems like a blink of an eye.

So why are the oil companies so good at this?

It's pretty simple: They have deep pockets, a fleet of helicopters at their disposal and years of practice from routinely shuttling crews to and from the platforms.

And unlike the government, they also know where each and every one of the people they need to evacuate is right now.

Finally, they have a lot to lose either through bad public relations or through personal-injury lawsuits.

"This is not something that is routine, but it is something that the oil industry has done over and over again over the years," said Chevron spokesman Mickey Driver. "Chevron has been operating in the Gulf of Mexico for more than 60 years. Certainly, there is hurricane season every year."

Now as Gustav threatens the gulf, Chevron has more than 3,000 employees and contractors working offshore at almost 400 different locations. They started evacuating nonessential personnel Thursday.

The Minerals Management Service Gulf of Mexico office reported Thursday afternoon that personnel have been evacuated from two of the 717 manned production platforms and one of the 121 rigs currently operating in the gulf.

#### Oil Workers Evacuate

Shell evacuated 700 people Wednesday and Thursday and plans to remove an additional 600 by Saturday. BP and ConocoPhillips also are starting to move personnel and ExxonMobil is closely monitoring the storm.

The gulf is home to about a quarter of U.S. crude oil production and the majority of natural gas reserves.

Oil prices briefly went up, but then came down on fears about damage to the oil operations.

For its part, the Federal Emergency Management Agency has pre-positioned supplies available for distribution in Gulf Coast states including more than 2.4 million liters of water, 4 million meals, 478 emergency generators, 141 truckloads of tarps and 267 truckloads of blankets and cots.

#### Experience Pays Off

So how does the company get everybody out before the storm hits?

Chevron is the only oil or gas company in the gulf with a fleet of 30 helicopters and 70 pilots. Once an evacuation order is given, those helicopters take to the air to get workers off platforms as far as 200 miles offshore. A fleet of supply boats is used to evacuate workers at rigs closer to the coast.

The oil companies also have their own metrological staff doing specific forecasts relative to the rigs and platforms. Those reports look at factors including wind speed, the types of waves and intensity of the rain.

"Like everybody else, we're very closely monitoring where Gustav may and may not go," Driver said. "We're always looking at worst-case scenario, making notes and preliminary plans if it goes one way or the other."

Many New Orleans residents trying to evacuate from Katrina three years ago got stuck in massive traffic jams. Oil companies and their fleet of helicopters don't have to worry about that.

Nonessential workers -- those who do routine maintenance -- are usually the first ones off. Many rigs take a day or so to shut down. So once an evacuation order is given, the rig is shut down and then those workers are brought back to shore.

Workers also need time once on shore to drive home and evacuate their families further inland.

Oil workers are used to shuttling back and forth between the coast and the platforms on the helicopters. They typically work two weeks out at sea and then come home for two weeks.

"Every day we are running people back and forth," Driver said.

Driver's advice to government officials in Mississippi and Louisiana is this: Be prepared.

"We are extremely cautious and we err on the side of being very, very conservative in our approach," he said. "So we plan for days ahead of time what we might do if we evacuate."

#### Helicopters, Helicopters and More Helicopters

The largest operator of helicopters in the gulf is Air Logistics, part of the larger Bristol company. The company works exclusively for the oil and gas industry and has the capacity to move 600 to 700 people a day, according to director Danny Holder.

On Wednesday morning, the company started using its 140 helicopters to move nonessential workers off platforms.

Holder said he expects everybody who will be evacuated to be back on the coast by Saturday. Then on Sunday, the company will fly its helicopters away from the coast to safer locations and truck all of its supplies out of the area.

It's not just about evacuating everybody quickly and safely but about being able to quickly get workers back to the platforms to start up operations again.

Holder expects to get workers back to sea starting Wednesday.

It takes roughly 2½ hours to fly round trip between the coast and the majority of platforms, about 80 miles offshore. Larger and faster helicopters are used for the deep-sea platforms, about 200 miles out. A round trip takes about 3½ hours and 19 workers at a time can ride back to shore. Each chopper can make that trip about three times in a day, Holder said.

For 30 years, James Kovacs worked as a drilling fluids engineer on various rigs and platforms in the gulf.

Many times over those years he was evacuated off rigs and platforms. The process, he said, "was pretty routine."

"They've never left anybody out there. Everybody's always been off when a hurricane hits," Kovacs said. "The oil business is very on top things."

So what if the government was responsible to evacuate the rigs?

"We'd still be out there," Kovacs said. "They'd have the TSA [Transportation Security Administration] guys out there inspecting our bags."

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#### Majority in Florida want to see offshore drilling

The News-Press, August 29, 2008; <http://www.news-press.com/apps/pbcs.dll/article?AID=/20080829/GREEN/808290364/1075>

TALLAHASSEE - More than three in five Floridians now support drilling for oil off the state's coast, a change of heart both opponents and proponents attribute to high gasoline prices.

A Mason-Dixon Florida poll released Thursday showed 61 percent statewide support drilling, with 32 percent against it. There were 7 percent undecided about the issue.

In June, President Bush and Republican presidential nominee Sen. John McCain advocated freeing the country's shores from a drilling moratorium. Gov. Charlie Crist said he favored at least exploring the idea and then letting states decide.

"It does not surprise me and I think it is a change," said Linda Young, director of the Clean Water Network of Florida who opposes drilling. "Obviously people are very concerned about the price of gas and the consequences of us buying so much of our oil from foreign sources."

The Mason-Dixon poll comes on the heels of a poll released earlier this week by Associated Industries of Florida that showed 73 percent of Floridians in favor of more drilling - up 10 percentage points from the same question a year ago.

"Washington, this is your wake-up call," said Barney Bishop, president of business-backed AIF. "Now is the time to break from traditional party lines and help alleviate our country's dependence on foreign oil by listening to your constituents."

That's likely to happen, Young said.

"I definitely see the allies we've had go the way of Charlie Crist and others who have traditionally opposed drilling," Young said.

In June, when he said he favored further study of drilling, Crist said it was a pragmatic decision.

"I hope I have a reputation of wanting to protect this environment, because I do. But I also have to balance that, as every citizen does, with what's happening to Florida families, what's happening to this economy, how dependent we are on foreign oil," Crist said.

The Mason-Dixon poll questioned 625 likely voters on Monday and Tuesday.

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### **Debunking Democrats on Drilling**

FOX News, August 28, 2008; <http://www.foxnews.com/story/0,2933,412549,00.html>

By Steven Milloy

House Speaker Nancy Pelosi last Tuesday dismissively referred to pro-oil-drilling demonstrators chanting "Drill here! Drill now!" as the "2-cents-in-10-years-crowd." She may have to revise her insult strategy, since it seems that some mere pro-drilling posturing by President Bush has already helped reduce the price of gas.

The "2-cents-in-10-years" slam refers to the anti-drilling environmentalists' primary argument that even if we expanded domestic oil production, it would have only a marginal impact on gasoline prices far into the future.

Increased worldwide oil demand, a weak dollar and increased oil futures speculation are among the leading factors that have caused crude oil prices to rocket upward since last summer, reaching a peak of about \$136 per barrel in mid-July. Since then, the price of oil has backed off to about \$110 per barrel, a decline of almost 20 percent. Gasoline prices have also fallen from mid-July's national average of \$4.11 per gallon to late-August's \$3.73 — a decline of more than 9 percent.

Why have the prices of oil and gasoline declined so much since mid-July? It's hard to know for sure, but let's consider the factors that caused the price to spike in the first place.

Americans, who drive about 3 trillion miles per year, do seem to be driving less and reducing demand for gasoline, according to the latest figures from the Federal Highway Administration.

Americans drove 4.7 percent fewer miles in June 2008 than June 2007, and 53.7 billion fewer miles between November 2007 to June 2008 than over the same period a year earlier — a time when gasoline prices rose from \$3.06 to \$4.13. So if less driving leads to lower oil and gas prices, the data don't show that relationship.

How about the dollar's 8 percent rally against the Euro since mid-July? Historically, the relationship between the dollar and the Euro has been only weakly correlated with the price of oil. That is, higher-dollar/lower-Euro and lower-dollar/higher-Euro movements have correlated only about 20 percent of the time with decreases and increases, respectively, in the price of oil. Recently, however, this correlation has increased to 57 percent, indicating "a reasonably high level of common movement," according to David Gaffen, who writes the Wall Street Journal's Marketbeat blog. So it is possible that the dollar's rise against the Euro may have helped reduce oil prices somewhat — but to what extent is unclear.

The remaining factor is oil futures speculation — which can be gauged by so-called "open interest" in crude oil, the number of futures contracts open on a given day. Since mid-July, crude oil open interest has declined by 100,000 contracts, a sign of heavy liquidation, the president of an energy risk management firm recently told the Associated Press.

So what happened in mid-July to cause oil speculators to bail out of oil? Could it have been Bush's July 14 announcement that he was lifting the 1990 executive order barring the Department of Interior from issuing leasing rights to explore and drill for oil offshore? If Bush's announcement was the trigger — and there doesn't appear to be any other significant event during that time that might have caused speculators to rethink their positions — then it's all the more remarkable since Bush's action itself will not lead to more drilling or a major infusion of new supply.

Not only is there a separate moratorium on offshore drilling that Congress renews every year — and, so far, the Democrat-controlled Congress has given little indication that it is seriously considering lifting it — but there's "only" an estimated 18 billion barrels of oil in the offshore areas subject to the leasing prohibitions. At current consumption rates of 7.5 billion barrels of oil annually, that's less than a three-year supply of oil for the U.S.

Getting back to Pelosi's derogatory "2-cents-in-10-years-crowd" comment, it seems as if it was debunked before she uttered it. Bush's revocation of the executive order — which without similar congressional action amounts to little more than a political statement in favor of increasing the oil supply — has possibly already reduced the price of gasoline by 38 cents in 30 days.

The mere prospect that the U.S. might get serious about increasing the supply of oil has sent speculators scurrying for cover. Imagine what would happen if we actually explored, drilled and produced some of that offshore oil — which, by the way, could be way more than 18 billion barrels. The U.S. Minerals Management Service estimated in 2006 that the quantity of undiscovered technically recoverable oil in the outer continental shelf is between 66.6 to 115.3 billion barrels of oil.

In any event, even if the offshore drilling only reduced the price of oil 2 cents over 10 years, as Pelosi would have us believe, isn't that better than the alternative her no-drill policy offers — ever-increasing prices?

As reported by Politico.com, Pelosi's retort to the protesters' chant was, "Right here? Can we drill your brains?" House Majority Leader Steny Hoyer then chided the protesters that "sophomoric chanting" won't solve the energy crisis. That may be true as long as we allow petulant Democrats to run Congress and our energy future.

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### **Evacuations intensify as Gustav churns toward Gulf**

Houston Chronicle, August 28, 2008; <http://www.chron.com/disp/story.mpl/ap/business/5972365.html>

By JOHN PORRETTO, AP

HOUSTON— Oil companies and drilling contractors on Thursday accelerated the evacuation of thousands of workers and secured offshore rigs and other equipment in the Gulf of Mexico as Tropical Storm Gustav churned toward the United States.

With top sustained winds just below hurricane strength, Gustav was projected to become a major Category 3 hurricane after it passes between Cuba and Mexico and enters the warm, deep Gulf waters. Some models showed Gustav taking a path toward Louisiana and other Gulf states devastated by hurricanes Katrina and Rita three years ago.

Vast areas of the Gulf lost power when Katrina struck, and utility companies say they're better prepared to respond to violent weather, but that only so much can be done.

Gustav is forecast to slam into the Gulf Coast early next week.

Hundreds of workers were being pulled out of the Gulf Thursday, and oil companies prepared to stop production, if necessary. About 35,000 people work in the Gulf, staffing offshore rigs and production facilities, among other tasks, according to the U.S. Minerals Management Service.

Royal Dutch Shell PLC planned to have another 300 workers out of the area, after removing 400 on Wednesday. The oil giant said it expected to remove its remaining 600 workers Friday and Saturday. BP PLC said it was completing the evacuation of nonessential platform personnel.

Shell also said it had begun to shut-in production at some wells, a process that can take several days. Anadarko Petroleum Corp., the largest independent deep-water producer in the Gulf of Mexico, was preparing to do the same.

Spokesman John Christiansen said the process entails removing the oil or natural gas from the piping that extends from the seafloor to the production platform, then sealing off the hole.

"Everything is shut off with valves at the seafloor so if there's any damage to the facility itself, the oil or natural gas — whatever's being produced — stays underground and doesn't get out into the environment," he said.

Anadarko, which has eight production platforms in the Gulf, said it expects to have all of its 600 employees and contractors evacuated and its production shut in by Sunday.

Transocean Inc., the world's largest offshore drilling contractor, said Thursday it had evacuated about 190 workers from five of its 11 offshore drilling rigs in the Gulf. Transocean normally has 1,550 workers in the region.

Along the Gulf Coast, refiners made early preparations for possible shutdowns.

San Antonio-based Valero Energy Corp. said that because of projected storm paths, it was paying particular attention to its refinery in Port Arthur, Texas, and another refinery just outside New Orleans at Norco, La.

Emergency supplies were being obtained for all of Valero's coastal refineries that also include Houston, Texas City and Corpus Christi, Texas, the company said.

The company took away some lessons from the double punch of Katrina and Rita in 2005, Valero spokesman Bill Day said. Valero put advance contracts in place for extra emergency equipment such as generators.

"Probably the main lesson we learned from Katrina and Rita is to take care of employees, make sure they have a place to stay, food, generators and a place for their families," Day said.

Motiva Enterprises LLC, a partnership between Shell and Saudi Arabia's national petroleum company, delivered extra gasoline to terminals Thursday in anticipation of huge demand should storm evacuations occur. The company has refineries at Convent and Norco in Louisiana and Port Arthur.

A refinery shutdown is not an instant stop-and-start process. Motiva said that even without storm damage, restarting production could take anywhere from a day to week. The company said it was impossible to predict how strong a hurricane would have to be to damage a refinery.

The U.S. Gulf Coast is home to nearly half the nation's refining capacity, while offshore the Gulf accounts for about 25 percent of domestic oil production and 15 percent of natural gas output.

Fears of disruption in energy production already have contributed to a 40 percent spike in wholesale gasoline prices in recent days, leaving retailers with little choice but to pass on those costs to consumers.

The increase comes as many Americans plan to hit the road for Labor Day weekend.

"It's likely that we'll see a 10 cents per gallon increase in gasoline in Texas and Louisiana prior to the storm's arrival," said Bruce Bullock, director of the Maguire Energy Institute at Southern Methodist University.

Major utilities from across the region are holding teleconferences every day, preparing a joint response.

Gulf Power Co., a Southern Co. utility that has 425,000 customers in the Florida panhandle, has put all of its employees on alert and canceled vacations, said spokesman John Hutchison.

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### **Senate energy plan's bipartisan support grows**

Oil & Gas Journal, August 27, 2008; [http://www.ogj.com/display\\_article/338075/7/ONART/none/GenIn/1/Senate-energy-plan's-bipartisan-support-grows/](http://www.ogj.com/display_article/338075/7/ONART/none/GenIn/1/Senate-energy-plan's-bipartisan-support-grows/)

Nick Snow

WASHINGTON, DC, Aug. 27 -- Six more US senators have expressed support for a bipartisan energy proposal that includes opening more of the Outer Continental Shelf for leasing.

Sens. Thomas J. Carper (D-Del.), Norm Coleman (R-Minn.), Tim Johnson (D-SD), Ken Salazar (D-Colo.), John E. Sununu (R-NH) and John W. Warner (R-Va.) have joined the so called "Gang of 10," according to its two leaders, Kent Conrad (D-ND) and Saxby Chambliss (R-Ga.).

"We all feel a sense of urgency to help ease fuel prices in the short term while addressing our long-term needs," Conrad said. "This comprehensive, bipartisan framework is now backed by a 'Gang of 16' because it puts every option on the table."

The original group announced their proposal Aug. 1 as Congress headed for its late summer recess (OGJ, Aug. 11, 2008, p. 24). A 48-member US House bipartisan working group unveiled its plan at the same time. Both were designed as proposed compromises in contrast to months of legislative gridlock and strident statements by congressional Democratic and Republican leaders.

"The American people are looking for action on the energy crisis," Chambliss said. "They are not looking for a political issue."

Mary L. Landrieu (D-La.), another of the group's original members, said the group would work to expand the consensus of senators "from 16 to 60" in the coming weeks.

Senate Majority Leader Harry M. Reid (D-Nev.) also agreed to the original group's request for a day-long energy forum and asked Energy and Natural Resources Committee Chairman Jeff Bingaman (D-NM) to direct it.

Meanwhile, in the House, Speaker Nancy Pelosi (D-Calif.) has not responded to either the working group's proposal, which now has 70 cosponsors, or to one by six other House members. Both call for leasing more of the OCS. Several House Republicans have stayed in Washington for nearly 3 weeks speaking from a shut-down House floor criticizing Pelosi for not bringing the OCS question to a vote before the recess began.

Two oil industry groups, the American Petroleum Institute and the National Petrochemical and Refiners Association, also have criticized the proposal for not opening more of the OCS while imposing billions of dollars in new taxes.

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### **Decision on Offshore Drilling To Test New Nominees**

WSJ, August 27, 2008; [http://online.wsj.com/article/SB121978533892374097.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB121978533892374097.html?mod=googlenews_wsj)

Obama, McCain Weigh Senate Plan; Putting Voters First

By STEPHEN POWER

After Barack Obama and John McCain claim their parties' nominations, the senators will have to decide whether to back an energy-policy compromise that is uncomfortable for some members of their parties but represents a middle ground where many voters stand.

The plan, put forward by a so-called "Gang of 10" Republican and Democratic senators, would allow oil and gas drilling in some offshore areas that are off limits -- a move opposed by many Democratic leaders. The plan would raise \$84 billion for various alternative energy and conservation measures, partly by taking away certain tax deductions from oil companies -- an idea opposed by many Republicans. Congress is likely to debate the drilling issue in September.

In a recent Wall Street Journal/NBC News poll<sup>1</sup>, respondents expressed strong support for developing alternatives to oil, but 63% also said expanding offshore drilling was a step in the right direction. In Washington, the Gang of 10 proposal has drawn criticism from groups on the left and the right. Some Republicans, who support expanded drilling, worry a compromise with Democrats will deprive Republicans of an election issue.

Tuesday, six more Senators -- three from each party -- signed on to the deal. If members of Congress can't agree on a drilling plan, that could lead to a government shutdown. Opponents of expanded offshore drilling may try to extend the current moratorium as part of a spending measure required to keep many government agencies running past the end of the fiscal year that ends Sept. 30. That's the same day the current congressional moratorium on offshore drilling expires. A more certain result is that Sens. Obama and McCain will have to define their energy-policy agendas by the stands they take on the Gang of 10 plan.

Sen. Obama said this week at a campaign stop in Wisconsin he is "willing to consider offshore drilling, but that is not the long-term solution." Sen. Obama hasn't explicitly endorsed the Gang of 10 deal, but has indicated he could accept a proposal like it. Members of Sen. Obama's campaign are attacking Sen. McCain for having said he would oppose it.

Sen. McCain has spent months calling Sen. Obama "Dr. No" for opposing increased offshore exploration. But the Arizona senator's aides have said he would oppose the Gang of 10 plan on the grounds that it would raise taxes.

The plan would raise billions of dollars for conservation and alternative energy programs partly by making oil companies no longer eligible for a manufacturing tax credit, and repealing other tax breaks.

At the center of the legislative maneuvering over the drilling issue are Sen. Saxby Chambliss (R.-Ga.) and North Dakota Democrat Kent Conrad, one of the first senators to endorse Sen. Obama's presidential campaign. Sen. Chambliss and Conrad collaborated on a massive farm bill that passed Congress earlier this year.

In June, the two senators decided to undertake a similar effort on energy policy to overcome gridlock over high oil prices. "I just walked over to his office and said 'you and I need to talk...about energy,'" Sen. Chambliss says.

The senators rounded up colleagues from each party, and began hashing out ideas, with advice from Securing America's Future Energy, a Washington-based nonprofit that advocates tougher automobile-efficiency standards, increased domestic drilling and more reliance on biofuels.

To boost oil supplies, the senators agreed to open additional acreage in the Gulf of Mexico to drilling and to let four states along the Atlantic coast -- Virginia, Georgia and the Carolinas -- to "opt in" to drilling near their coasts if their legislatures approve. To curb demand, they proposed new tax credits worth up to \$2,500 to encourage the purchase of fuel-efficient vehicles, and \$7.5 billion to help automakers retool factories for alternative-fuel vehicles.

The proposal includes a prohibition on drilling within 50 miles of any state's coastline -- which has drawn fire from some drilling supporters. Sen. Lindsey Graham (R., S.C.), one of the proposal's supporters, says the buffer zone is essential for his state, where many jobs are tied to beach-related tourism.

"Drilling without state consent would be an absolute political disaster," Sen. Graham says in an interview.

The proposal also doesn't call for new limits on speculative trading in oil -- a top priority for some Democrats. Sens. Conrad and Chambliss say the group disagreed over the issue, and decided to wait for a report by a federal task force assessing what effect, if any, such trading has on prices.



A problem for Democrats is that environmental groups have long opposed expanded drilling. Still, some in the environmental movement say they could accept legislation that expands offshore drilling with strong safeguards.

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### **California County's Resolve Against Drilling Fades**

NYT, August 26, 2008; [http://www.nytimes.com/2008/08/27/us/27drill.html?\\_r=1&ref=us&oref=slogin](http://www.nytimes.com/2008/08/27/us/27drill.html?_r=1&ref=us&oref=slogin)

By FELICITY BARRINGER

Santa Barbara County became a symbol of the national environmental movement's passionate opposition to offshore oil drilling when an oil spill devastated its coastline in 1969. On Tuesday, it became a symbol of the changing national mood as its board of supervisors debated whether to welcome new wells along California's shores.

The supervisors voted 3 to 2 on Tuesday to end the county's opposition to offshore drilling, although the vote will have no practical impact on state or federal policies.

But the speed with which opinions have changed in Santa Barbara County as gasoline prices have climbed has been astonishing. The vote there reinforces, at the local level, a shift evident in national polls and in the delicate willingness of Democratic leaders like Senator Barack Obama, the presumptive presidential nominee, and the House speaker, Nancy Pelosi of California, to open the door to limited coastal drilling.

Three weeks ago, the Public Policy Institute of California released a poll showing that 51 percent of Californians now approve of offshore drilling, a 10-point increase in a single year. "I don't think any of us expected to see the day when there'd be more than 50 percent support for oil drilling," said Mark Baldassare, the institute's research director.

Despite the liberal, environmentally conscious aura that has surrounded the wealthy coastal communities of Santa Barbara and Montecito, the county as a whole, which also includes the fast-growing, less-wealthy inland communities of Santa Ynez and Santa Maria, has been less easily pigeonholed politically.

"It's a bipolar situation," said Antonio Rossman, an environmental lawyer in San Francisco. "You've got some of the strongest environmentalists in the country, yet this is where Ronald Reagan had his ranch," Mr. Rossman said, adding, "The Santa Barbara County Board of Supervisors has always split as close as anyone can on issues of preservation versus development."

The swing vote on the five-member board, Supervisor Brooks Firestone, said in a telephone interview on Tuesday that he was ending his opposition because offshore drilling was no longer a significant threat to the coastal environment.

"I did a lot of research that brought me to realize that 1969 can't happen again," Mr. Firestone said. He joined two supervisors who are longtime proponents of drilling in voting in favor of writing a letter asking Gov. Arnold Schwarzenegger, a Republican, to rethink his support for the Congressional moratorium on offshore drilling.

Michael Chrisman, California's secretary for resources, made it clear in a telephone interview that this was not going to happen. Asked about the changes in the national and local moods, Mr. Chrisman said: "It's obvious what's going on. The presidential election's going on."

He said the issue was driven by the "high price of gasoline and need of country to become more energy independent."

"It's a healthy debate," he added. "But from our perspective, our position hasn't changed. The governor has been very clear in his opposition to increased drilling off the coast of California." More than 80 people signed up to speak at the supervisors' meeting Tuesday, and Mr. Firestone said the testimony was often emotional.

"People want wind power, solar power, less dependence on foreign oil," he said. "Fair enough. We all want that." But he said he expected economic pressure to find new oil supplies to reach a breaking point eventually and force widespread leasing of tracts off the coast. "Better to do it gradually, safely and intelligently," he said, "than wait for the inevitable conclusion."

Tupper Hall, a spokesman for the Western States Petroleum Association, said in a telephone interview that the debate in Santa Barbara was emblematic of a national mood swing prompted in part by a desire to be less dependent on Middle Eastern oil. "This national — and now local — dialogue that is now taking place we believe is very healthy," Mr. Hall said. "It is an acknowledgment, I believe, that the public understands that supply really does matter."

Finding safe and appropriate ways to increase the supply, he added, is "one of the ways to address instability, volatility in the global markets."

But Warner Chabot, a vice president of the Ocean Conservancy, a national environmental group, said offshore drilling would not decrease oil prices.

"Exposing coastal areas and beaches to oil drills and environmental degradation for a few weeks' supply isn't a national energy policy," Mr. Chabot said.

President Bush put the issue at the center of the national debate in June when he proposed rescinding an executive order against offshore drilling originally imposed by his father. He ended that moratorium in July and called on Congress to lift the ban it has imposed for 27 years.

Senator John McCain, the presumptive Republican presidential nominee, was in Santa Barbara just weeks earlier to outline his energy policy — one that included a new willingness to encourage drilling on the outer continental shelf.

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### **Oil industry may get first post-Katrina test**

CNN Money, August 26, 2008;

<http://money.cnn.com/news/newsfeeds/articles/apwire/7b731bf4b98bf469be994484c15fe7f4.htm>

Amid Katrina's destruction many lessons were learned: Gustav may tell if any of that matters

NEW YORK (Associated Press) - Stronger moorings for production platforms. Deeper pipelines. Larger supplies of backup electricity, water and other supplies.

The petroleum industry has spent vast amounts of time and money since the catastrophic hurricanes of 2005 trying to make sure it's better prepared for the next big blow.

It could be named Gustav, a deadly storm that appears headed for the northern Gulf of Mexico, home to a complex web of platforms, pipelines and refineries in a region that produces roughly 25 percent of the nation's oil and 15 percent of its natural gas.

Projections showed Gustav arriving early next week as a Category 3 storm, striking anywhere from the Florida Panhandle to eastern Texas.

Three years ago, as they prepared to fix the Gulf's devastated oil and gas facilities, industry representatives realized standard repairs weren't enough. So the companies that own the platforms, drill the wells and manage the pipelines spent hundreds of millions of dollars to improve and strengthen their operations.

Still, as Gustav churns, a question lingers: how will the revamped structures, pipelines and other equipment hold up to a major hurricane?

"I think the industry is smarter, but it's hard to say if it's better prepared," said David Purcell, an analyst at Tudor Pickering Holt & Co. Securities. "If you think about an old car and you repair it, it's hard to make it better than new. But you can make it close to new. The question is: is new good enough?"

Petroleum companies certainly learned some hard — and very expensive — lessons from hurricanes Katrina and Rita, the culprits of the 2005 devastation. Those storms destroyed 115 of the Gulf's 4,000 oil and gas platforms and damaged 52 others.

Even Royal Dutch Shell's enormous Mars production platform could not withstand the forces unleashed by Katrina. The storm's 175-mph winds and 75-foot waves broke the steel clamps that held the 1,500-ton rig structure to the

platform and knocked a 200-foot derrick into the water. The surge caused the rig to rise up and slam into the platform, causing heavy damage.

The clamps today are four times stronger, according to Shell. The platform resumed operation in May 2006.

"If one major deep-water production platform is destroyed, you're talking about a \$1 billion or more loss," said Satish Nagarajaiah, a civil and mechanical engineering professor at Rice University. "If it's multiple rigs and platforms in a variety of water depths, then we're talking billions of dollars."

Soon after the 2005 storms, Shell joined a number of industry players \_ other oil companies, federal agencies, the American Petroleum Institute, among them \_ looking at ways to better protect themselves against such disasters and minimize the damage and subsequent supply disruptions that contribute to spiking energy prices.

One of the key conclusions was the need for stronger mooring systems that anchor rigs to the sea floor, sometimes in thousands of feet of water. That's prompted major rig owners like Transocean Inc. and Noble Drilling Inc. to increase the number of anchor lines.

Noble, for example, spent as much as \$30 million apiece to strengthen moorings on five deep-water rigs. The company also has added new monitors to rigs that will allow it to track, via the Internet, wind speed, wave heights and pitch and roll during a storm.

Giant rigs unhinged by Katrina and Rita dragged behind them their mooring lines and anchors, raking the sea floor and damaging pipelines. Natural gas provider El Paso Corp. has since buried some offshore pipelines deeper and added breakaway joints that automatically shut off the flow of gas if the line is broken.

On the refining side, the two biggest challenges after the 2005 storms passed were power disruptions and flooding \_ both of which prompted refiners to examine their practices and make adjustments. After Katrina and Rita, refineries accounting for 29 percent of U.S. refining capacity were temporarily shut down. Altogether, the Gulf Coast is home to nearly half the nation's refining capacity.

Since the 2005 punch, many refineries have raised critical equipment so it won't flood and beefed up plans to get backup power as quickly as possible.

Companies also learned that it is impossible to run operations offshore if you can't find and take care of your people onshore. The 2005 hurricanes shattered communications and scattered people for hundreds of miles.

Shell now says it has the capacity to quickly construct base camps \_ complete with lodging, showers and kitchens \_ to sustain hundreds of refinery and pipeline workers about eight hours after a storm passes. The facilities would be hauled in by 18-wheelers and erected at prearranged sites.

"There was that brief period after Katrina came ashore where there was no electricity anywhere," said Sara Banaszak, senior economist at the American Petroleum Institute, a trade group. "Pipelines couldn't operate. Nothing was happening. A lot of change has occurred in how we prepare for these severe storms."

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### **House Democrats Push Energy Plan; In Senate, 'Gang of 10' Grows**

CQ Today, August 26, 2008;

<http://www.cq.com/document/display.do;jsessionid=D75970925F80D4DAB871BE46178EA261.upolu?matchId=64192082>

By Edward Epstein and Catharine Richert

Efforts to break the logjam in Congress over offshore oil drilling gained new momentum Tuesday, when six more senators signed onto bipartisan energy legislation and House Democratic leaders unveiled a repackaged energy plan.

During a news conference at the Democratic convention in Denver interrupted by protests from backers of presumed Republican presidential nominee John McCain, House leaders reiterated plans to bring a wide-ranging energy package to the floor when Congress returns next month.

The legislation will include an expansion of drilling in federal waters accompanied by tougher environmental safeguards and a rollback of tax and royalty breaks for oil companies.

"We are willing to expand drilling in the outer continental shelf but to do so in a responsible way and as part of a comprehensive energy package," said House Natural Resources Chairman Nick J. Rahall, D-W.Va.

Republicans in both chambers have tied up legislative business with demands for a vote to expand oil and gas drilling off the Atlantic and Pacific coasts. Since 1982, Congress has put most U.S. coastal waters off-limits to drilling through a statutory moratorium that has been re-enacted annually in the Interior appropriations bill.

The most recent moratorium was included in the fiscal 2008 omnibus spending bill (PL 110-161), which expires when the fiscal year ends Sept. 30.

Without a compromise, Republican demands to drop the moratorium could complicate passage of a continuing resolution necessary to keep the government running in the new fiscal year. The closely divided Senate needs GOP support to pass a spending bill. In the House, there are enough Republicans to sustain a presidential veto.

The new Democratic package is still being drafted. House Republicans said any consideration of it should include the opportunity to offer counter-proposals.

"We're very content to live with the outcome [of the debate] so long as we are allowed open debate on amendments," said Rep. Tom Price, R-Ga.

Democrats said they are not sure Republicans will get that opportunity.

"They're not interested in legislating," said Massachusetts Democrat Jim McGovern, a senior member of the Rules Committee, which sets the terms of debate for legislation that comes to the floor. "They're interested in derailing things."

The Democratic leaders said their plan would tie new offshore drilling to a rollback of tax breaks and royalty-free leases for oil companies as well as a requirement to drill on existing leases. Incentives for development of alternative energy sources, new technologies and mass transit would also be part of the package. Rahall said he wants the bill to include protections against "cronyism, malfeasance and neglect" by officials running the Interior Department program that administers in-kind royalty payments on federal property.

Republicans said the Democratic plan lacks a strategy to cultivate new energy sources in the United States, such as opening new areas offshore to oil and gas drilling or tapping new natural gas supplies.

"They say they are saving the earth," said Texas Republican Louie Gohmert, in a reference to recent comments by Speaker Nancy Pelosi, D-Calif. "But it's a hard choice to make when so many people are suffering financially due to high gas prices."

#### 'Gang of 10' Adds Members

In the Senate, a bipartisan group of senators calling themselves the "Gang of 10" have proposed draft legislation designed to end the impasse by linking provisions that would expand offshore drilling with conservation, consumer tax credits and development of alternative energy sources favored by most Democrats.

The bipartisan coalition got a boost with the addition of Republicans John W. Warner of Virginia, Norm Coleman of Minnesota and John E. Sununu of New Hampshire and Democrats Tim Johnson of South Dakota, Thomas R. Carper of Delaware and Ken Salazar of Colorado.

"We all feel a sense of urgency to help ease fuel prices in the short term while addressing our long term needs," said North Dakota Democrat Kent Conrad, who helped engineer the bipartisan coalition. "This comprehensive, bipartisan framework is now backed by a Gang of 16 because it puts every option on the table."

Georgia Republican Saxby Chambliss expressed confidence the group will continue to grow when Congress returns from summer recess.

"The American people are looking for action on the energy crisis," Chambliss said. "They are not looking for a political issue."

While the public may not be looking for a political issue, Republicans found one in the debate over offshore drilling, which has become a lightning rod for public dissatisfaction about record gasoline prices.

Since Congress recessed the month, Republicans have held a daily vigil in the House chamber to demand a vote on offshore drilling, and both President Bush and McCain have reversed their previous opposition to more offshore drilling to put Democrats on the defensive.

Rep. Rush D. Holt, D-N.J., said he expects the Bush administration to move quickly in its final days to issue new offshore leases if the moratorium is allowed to lapse.

"I hope that we don't let it expire, that we negotiate something," Holt said. "But I suspect the president will not negotiate. If not, we'll have to drive a hard bargain."

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### **A Carbon Education**

WSJ, August 26, 2008; <http://online.wsj.com/article/SB121970784876071105.html>

Nancy Pelosi recently diluted her opposition to offshore drilling, but we're beginning to wonder if the House Speaker even knows why she opposed increasing domestic energy supplies in the first place.

Ms. Pelosi appeared Sunday on NBC's "Meet the Press," where Tom Brokaw gently pointed out that the various Democratic alternative energy ambitions are "not going to happen overnight." Replied Ms. Pelosi: "You can have a transition with natural gas. That, that is cheap, abundant and clean compared to fossil fuels." Later, she again said that "I believe in natural gas as a clean, cheap alternative to fossil fuels," and that wind, solar, biofuels and "a focus on natural gas, these are the real alternatives."

Apparently Ms. Pelosi's new script is still being reworked, but it's a telling mistake. Not only is natural gas every bit as much a "fossil fuel" as oil or coal. More to the point, these concentrated organic compounds found beneath the earth's surface must be extracted by . . . drilling. And sometimes even drilling offshore, on the Outer Continental Shelf. But more drilling is what Ms. Pelosi had refused to allow just a few days ago.

Natural gas was once the toast of the Beltway, since it burns cleaner than oil and coal, though that was before Democrats became hostile to any form of carbon energy. But lately natural gas is making a comeback, thanks in part to the high-profile advocacy of T. Boone Pickens, who has been embraced by Democrats as the latest green champion. As a follow-up, we'd like to see someone ask Ms. Pelosi if she still supports more natural gas exploration once she learns that it's made from evil carbon.

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### **Santa Barbara County supervisors expected to back offshore oil drilling**

Los Angeles Times, August 26, 2008; <http://www.latimes.com/news/local/la-me-oilvote26-2008aug26,0,5800487.story>

In a symbolic vote today, officials probably will support offshore drilling. Supervisor Brooks Firestone says new, safer technology is one reason he's reversing his previous opposition to drilling

By Maria L. La Ganga

Nearly 40 years after a disastrous oil spill off the Santa Barbara coast galvanized the nation and gave birth to the modern environmental movement, the county Board of Supervisors is poised to vote today in support of offshore drilling.

Proponents of the measure argue that America cannot turn away from a homegrown energy source at a time when the country is dangerously dependent on foreign oil and technology has made offshore oil drilling safer than ever.

Opponents, however, deride today's scheduled vote asking Gov. Arnold Schwarzenegger to change state policy and "allow expanded oil exploration and extraction in the Santa Barbara County region" as an exercise in polls, politics and posturing.

The vote is largely symbolic -- the supervisors have no power to approve new offshore drilling, and Schwarzenegger has already come out against it. But it underscores both the issue's volatility and this coastal county's changing profile.

With gas prices hovering around \$4 a gallon and a presidential election in the offing, even House Speaker Nancy Pelosi (D-Calif.) and presumptive Democratic candidate Barack Obama in recent weeks have cautiously embraced the possibility of offshore drilling.

The vote is as much about the tension between inland and coast as it is about the price of a barrel of crude, which peaked at nearly \$150 in July. Population and political power have been shifting away from the more liberal southern waterfront region, and the Board of Supervisors has a conservative, pro-industry majority for the first time in about a decade.

The result: An expected 3-2 vote to support increased oil drilling off the same beaches that were covered with the corpses of birds, seals and dolphins after more than 3 million gallons of crude oil leaked from an offshore drilling site in 1969.

Supervisor Brooks Firestone co-wrote today's measure to voice support for offshore drilling. Just a year ago, however, he voted with the board majority in support of a federal moratorium on such drilling.

Back then, he said in an interview Monday, "we didn't need the revenues. Property values were such that we were paying our own bills. We didn't need the jobs. Employment was very sound. But the threat to the tourist industry, if we were going to have sticky beaches, that would be a disaster."

Firestone has since changed his mind, he said, because "technology has preempted that last argument. We do need the jobs. We do need the money. We do need the oil."

It is unclear, however, just how much oil is there and how much its recovery would benefit the cash-strapped county, which receives about \$5.5 million in annual oil revenue.

A Board of Supervisors staff report quotes the federal Minerals Management Service, which estimates that there could be "technically recoverable, median-value reserves" of 5.74 billion barrels of oil and 10 trillion cubic feet of gas in the area covered by the federal moratorium from the northern tip of San Luis Obispo County to the Mexican border. There is no separate breakdown for Santa Barbara County.

Although the revenue picture is complicated, Firestone said, "by gradually and sensitively expanding offshore exploration and drilling, the estimated revenue to the county runs in many millions of dollars." In addition, he said, the new oil would help offset the 20 million barrels America uses each day.

Linda Krop, chief counsel for the Environmental Defense Center, argues that because the region covered by the federal moratorium has yet to be explored, it is impossible to know just how much oil is actually there. She also noted that the benefits would be in the distant future.

Krop said the expected vote does not mark a sea change in the region but rather underscores the county's long-term divisions. "The north county has always been pro-oil," she said. "Santa Barbara city has been anti-oil for 40 years and is still anti-oil."

Krop also notes that there are 36 oil leases off the county's coastline -- granted between 1968 and 1984 -- that have never been developed by oil companies.

The main question raised before the board by opponents to the measure, she said, is: "Why should we be opening up brand new areas when there are already leases the oil companies are sitting on?"

Supervisor Salud Carbajal -- whose district includes much of the city of Santa Barbara, along with Carpinteria, Summerland and Montecito -- calls lifting the moratorium on offshore drilling a "Trojan horse" that would allow oil companies to purchase leases that are not available to them now.

Today's expected action, he said, "is a short-sighted, limited, symbolic vote that would be in keeping with the whole confusion on the national level that we can drill our way out of this, and that it's the panacea."

Congress first passed a national ban on new offshore drilling in 1981 and has renewed it annually ever since. In 1990, then-President George H.W. Bush passed an executive order prohibiting such drilling until certain studies could be completed. President Clinton extended that prohibition.

The current political discussion was jump-started in July when oil prices peaked and President Bush rescinded the executive order. Congress still needs to act before any leasing can occur.

Shortly after Bush's action, Schwarzenegger joined the governors of Oregon and Washington state to urge the federal government not to allow new offshore drilling and to ask that more money be spent to improve the health of the Pacific Ocean.

Which calls into question just what effect today's Santa Barbara County vote could have. Still, the measure's proponents say drilling is long overdue for reasons both economic and environmental.

Bruce Allen is co-founder of an advocacy group called SOS California, an initialism for "Stop Oil Seeps." The group believes that the thousands of barrels of oil per year that naturally ooze up from the ocean floor are a serious form of pollution.

Its members also cite the work of UC Santa Barbara researchers -- including Bruce P. Luyendyk, a professor of marine geophysics -- to support their contention that oil drilling releases pressure that causes natural seeps in the region.

"Maybe there's an argument that if you expand offshore oil production, you reduce the seeps and reduce marine pollution and provide California with more energy and the tax revenues to pay for the transition to solar energy and electric vehicles," Allen said.

But in a letter to the Board of Supervisors in advance of the vote, Luyendyk warned against extrapolating the results of his group's 1999 study and said that labeling naturally seeping oil "to be pollution is not so simple."

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#### **Pelosi lists conditions for OCS vote**

Oil & Gas Journal, August 25, 2008; [http://www.ogj.com/display\\_article/337832/7/ONART/none/GenIn/1/Pelosi-lists-conditions-for-OCS-vote/](http://www.ogj.com/display_article/337832/7/ONART/none/GenIn/1/Pelosi-lists-conditions-for-OCS-vote/)

Nick Snow

WASHINGTON, DC, Aug. 25 -- US House Speaker Nancy Pelosi (D-Calif.) endorsed natural gas as a transition to alternative fuels but continued to place conditions on a possible vote to open more of the Outer Continental Shelf for oil and gas leasing.

"You can have a transition with natural gas that is cheap, abundant, and clean compared to fossil fuels ... The supply of natural gas is so big and you do need a transition if you're going from fossil fuels... These investments in wind, in solar and biofuels, and [a] focus on natural gas are the real alternatives," she said during a weekend interview on NBC-TV's "Meet the Press" Aug. 24.

Pelosi reiterated that more drilling offshore won't reduce prices at the gasoline pump. "But if the president wants to put it on the table and we can revisit the relationship between Big Oil and resources that belong to the American people," she continued, the matter might be discussed.

"We'll put it all on the table ... offshore drilling, if that is worth it, but renewable resources so that we do not get in this situation again," Pelosi said.

"I don't think [leasing additional OCS areas] is a good alternative, but if they can prove that it is and they want to pay royalties to the taxpayer, let us use those royalties to invest in renewable energy resources, we have something to talk about," she said later in the interview.

But when interviewer Tom Brokaw said much later, "Sounds like we're going to have offshore drilling," Pelosi immediately responded, "No, no, no."

She also said that while Congress does not have a very high public approval rating, it is above those of the Bush administration and the oil industry. Congress successfully pressed the president to quit filling the Strategic Petroleum Reserve when crude oil prices were more than \$100/bbl, she noted.

"You know when the Republicans were doing what I call 'a war dance of the handmaidens of the oil companies' on the floor of the House a couple of weeks ago? Well, one of those Thursdays was primary day in Tennessee, and one of those Republicans was up for re-election and lost in the primary to a Republican who said that the incumbent was a candidate of Big Oil and offshore drilling," Pelosi said.

"So again, we have to talk to the American people about this. We have to do what is right for the consumer, for the taxpayer and for the environment. And we know how to do that. If they want to put that in the mix...have standards and no subsidies, give us royalties, [and] revisit the relationship between the oil that belongs to the American people and the profits of Big Oil, let's have that discussion," she said.

API responds

API issued a statement in rebuttal, saying, "The US oil and natural gas industry paid an estimated total of \$8.7 billion in royalties to the Treasury during fiscal year 2007 to produce from federal lands onshore and in federal waters offshore, according to the Interior Department.

"The industry also paid another \$6.8 billion in bonus bids to the federal government to acquire leases in the four lease sales held so far in 2008," the organization reported. "These payments represent a significant source of revenue paid to the US Treasury."

"What the country needs is a balanced energy approach that encourages conservation but also production of all forms of energy, including domestic oil and natural gas," API continued.

"Increasing access to domestic resources could make us more secure at home, generate more American jobs, and put even more into federal coffers."

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### **Oil is the Word of the Week for Louisiana's Landrieu**

CQ Today, August 25, 2008;

<http://www.cq.com/document/display.do;jsessionid=E5D3F00867FB61FE7D265A6C84BEB6E6.upolu?matchId=64138804>

By Joseph J. Schatz

Expanding offshore oil drilling certainly won't be front and center this week in Denver, but that doesn't matter to Sen. Mary L. Landrieu, D-La. She says securing support for increased energy exploration off the Louisiana coast is priority No. 1 this week.

Locked in a competitive race for re-election, Landrieu told Louisiana delegates Monday morning that she is spending the week lobbying lawmakers from Virginia, North Carolina, South Carolina and Florida to support offshore drilling, noting that energy companies "can conduct offshore and onshore drilling safely" and without damaging the environment.

Calling herself "someone who knows something about energy," Landrieu has made the issue the centerpiece of her battle for re-election this year in conservative-leaning Louisiana, despite opposition from many Democratic leaders. She argued that pressure from her and other lawmakers has forced Sens. Barack Obama, D-Ill., and John McCain, R-Ariz., to moderate or reverse their opposition to drilling.

"We have an energy message to give this country," Landrieu said, saying that offshore drilling should be "the centerpiece of a new energy economy for this nation." She noted, however, that the reconstruction of the Gulf Coast following 2005's Hurricane Katrina remains a top priority.

Landrieu is the only Democratic senator running for re-election this year who is facing a competitive race. CQ Politics rates the race "leans Democratic."



With several prominent members of the Louisiana congressional delegation recently leaving office or planning to leave, like former Rep. Richard H. Baker, R-La., and current Ways and Means Committee ranking Republican Jim McCrery, R-La., Landrieu has become the state's loudest voice in Washington. State Treasurer John Kennedy is challenging Landrieu.

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### **Georges Bank drilling weighed**

The Boston Globe, August 25, 2008;

[http://www.boston.com/news/science/articles/2008/08/25/georges\\_bank\\_drilling\\_weighed/](http://www.boston.com/news/science/articles/2008/08/25/georges_bank_drilling_weighed/)

By Beth Daley

HALIFAX, Nova Scotia - Canadian government officials and some fishermen are considering the once unthinkable: drilling for oil and gas on the fabled Georges Bank fishing ground their nation shares with the United States.

Surging energy prices, advances in drilling technology, and the decline of fishing have combined to reignite interest in looking for oil on the vast elevated stretch of sea floor that sits roughly 100 miles off Cape Cod and runs northeasterly toward Nova Scotia.

Nova Scotia's energy minister, Richard Hurlburt, said in an interview that it is possible that fishing and oil drilling "can coexist" on Georges. He led a delegation that included fishermen to Norway earlier this year to showcase how drilling can be conducted in environmentally sensitive offshore areas. "If there is an opportunity here, we have to look at it," he said.

The possibility of drilling is raising alarm in New England, where fishermen and environmentalists in the 1970s and 1980s succeeded in getting the federal government to halt such plans on Georges Bank, which was part of the North American mainland until the ocean fully covered it about 6,000 years ago.

Many New England fishermen, environmentalists, and politicians say that if Canada drills on its small portion of the bank, any problems could quickly spread to the US side at a time when the fishing ground is showing signs of rebounding. Canada does not need US permission to drill on its side, although Hurlburt said he would keep New England officials apprised.

Nova Scotia's shift toward drilling highlights questions about how safely oil rigs can operate in prime fishing grounds, even as momentum builds in Washington to end a longtime congressional ban on most US offshore drilling.

While the number of offshore oil spills has declined in recent decades and the industry has become safer, fierce debate continues to surround drilling.

"We are saying this is the one place they should leave alone," said Denny Morrow, executive director of the Nova Scotia Fish Packers Association. "It is an incredibly diverse and productive place. We have fish and shellfish spawning 12 months a year. . . . There is nothing else like it."

He is leading a volunteer group scheduled to meet today to begin its fight against any Georges Bank drilling proposal. Morrow's group is called Norigs 3, named for the third time that fishermen have launched a campaign against opening Georges Bank to drilling. The other efforts in Canada were in the late 1980s and late 1990s.

In the past, the oil and gas industry led the charge to open Georges Bank. What's different this time, Morrow said, is that the Nova Scotia energy minister appears to have taken on that role.

There are no plans to drill on the US portion of Georges Bank. But New England environmentalists said any drilling on Canada's portion will inevitably hurt all of Georges. Peter Shelley of the Conservation Law Foundation, who fought the previous US drilling proposals, said haddock and other fish are finally showing signs of rebounding.

"To throw oil development on top of this now is particularly maddening," he said.

Unlike in the United States, which currently bans drilling off much of the Atlantic and Pacific coasts, drilling is allowed virtually everywhere off Eastern Canada except Georges Bank. According to the Nova Scotia government,

there could be about 1 billion barrels of oil and 5.3 trillion cubic feet of natural gas beneath it, enough to be considered an "elephant" size field by the oil industry. Any oil and gas would probably be delivered to the US market.

Canada has a drilling moratorium on Georges Bank until 2012. But the Nova Scotia government must decide by early 2010 whether it wants a public review to see if oil and gas drilling can exist there with fishing.

The Canadian Association of Petroleum Producers described Georges Bank as an exciting resource.

"We look forward to further developing a positive relationship with the province and the fishermen to ensure Nova Scotia's offshore resources are developed responsibly and to their full potential," association spokesman Travis Davies said.

The sharp decline of many species of fish off Canada in the past 20 years is partly driving the call for another look at drilling. There are fewer fishermen competing for cod and flounder.

"The fishing is not like it was. People are leaving to find work. . . . We need [new types of] industry," said Hubert Saulnier, president of a local chapter of the Maritime Fishermen's Union in southwest Nova Scotia. The last time drilling on Georges was discussed, in the late 1990s, Saulnier fought it. But now, "I'm not saying yes, but I am open to looking at it," he said.

Oil and gas drilling already operate side by side throughout the world, including in large swaths off the US coast in the Gulf of Mexico. A US Minerals Management Service spokesman said spills are rare - even when Hurricanes Katrina and Rita stormed through in 2005 and toppled oil and gas rigs. A 2003 federally commissioned report said that oil spills from drilling make up a tiny percentage of the petroleum in North American waters; most of it comes from natural geological seeps.

The most infamous US platform spill was in 1969 off Santa Barbara, which sparked widespread safety changes to protect the environment. Today, rigs have equipment that traps oil below the surface or in pipelines that seal off sections if there is a break or leak.

Yet, environmentalists worry that drilling fluids used to bore below the sea can cause contamination. They are also concerned that water dredged up with oil and gas during extraction can be filled with toxins. And while companies are obligated to report spills, some scientists said it is not always clear how much oil is getting into the ocean or the damage it is doing.

"Scrutiny is not nearly as high" as it is in projects within public view on land, said Jim Cowan, professor of oceanography and coastal sciences at Louisiana State University.

Cowan studies how oil rigs attract fish much the way an artificial reef or shipwreck does. Many recreational fishermen in the Gulf of Mexico say the rigs enhance fish populations such as red snapper and grouper. But Cowan said it is not clear if the rigs actually increase the total number of fish or merely change where they gather.

There is also evidence that seismic surveys - necessary to find oil and gas and lasting weeks - make the ocean so noisy that marine mammals can't communicate. In Nova Scotia, fishermen also worry that the rigs would require no-fishing zones.

Now, as Norigs 3 organizes for what it promises will be a sustained fight against any industry other than fishing on Georges Bank, some environmentalists worry that there are fewer fishermen to take part in that battle.

"We're getting a second chance on Georges" with fish, said Susanna Fuller, marine conservation coordinator for the Ecology Action Centre in Halifax, an environmental advocacy group that opposes drilling on Georges. "Adding oil and gas into the mix diminishes our chances."

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## **U.S. Loses Oil-Lease Appeal**

WSJ, August 25, 2008; <http://online.wsj.com/article/SB121967839911669403.html>

By IAN TALLEY

A U.S. appeals court Monday awarded nearly a dozen oil companies more than \$1 billion to recover costs from breached 1980s exploration and production leases off the coast of California.

The U.S. Court of Appeals for the Federal Circuit affirmed a previous court's decision for the plaintiffs claiming the government owed them for the bonuses paid for the Outer Continental Shelf leases.

"It's very important to have reaffirmed the principle that when the government enters contracts with companies, it's held to the obligation either to fulfill those contractual obligations or pay damages if it doesn't," said Steven Rosenbaum, a partner with Covington & Burling LP and counsel for the plaintiffs.

The plaintiffs include Amber Resources Co., Delta Petroleum Corp., Total SA, Plains Exploration and Production, Noble Energy, Anadarko E&P and Devon Energy Production.

Between 1979 and 1984, the federal government granted around 35 leases to explore for and produce oil and natural gas off the California coast. But after a series of legal battles over the Coastal Zone Management Plan, the oil companies weren't able to use the leases, and they ultimately expired or were suspended by the government.

Separately, the court reversed two federal court rulings against Star Scientific Inc. in its patent dispute with cigarette maker R.J. Reynolds Tobacco Co.

The appeals court said U.S. Court of Federal Claims was correct in deciding that holders of oil-and-gas leases off California were entitled to the award after the government took action that had the effect of preventing the lessees from continuing exploratory activities on the leased properties, at least temporarily.

The decision said nearly a dozen companies holding leases for the 36 undeveloped tracts off Ventura, Santa Barbara and San Luis Obispo counties should be reimbursed for what they paid decades ago for the leases.

The plaintiffs in the case include Total SA, Devon Energy Corp. and Anadarko Petroleum Corp.

In the cigarette case, the appeals court reversed rulings against Star Scientific, which sued R.J. Reynolds regarding two patents related to a process that allegedly reduces cancer-causing toxins known as tobacco-specific nitrosamines. Soon after Star sold its "StarCured" tobacco to British American Tobacco's Brown & Williamson in 1999. Soon thereafter, R.J. Reynolds announced its own system to reduce nitrosamines.

But a federal judge last year ruled against Star Scientific in an "inequitable conduct" bench trial, which had delayed the implementation of a prior patent ruling that said the Reynolds American Inc. unit didn't infringe on Star's patents. In patent law, "inequitable conduct" suggests the patentholder knowingly misrepresented itself or withheld relevant information in applying for its patent, allowing the court to deem its patent unenforceable.

--Jennifer Hoyt and the Associated Press contributed to this story

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### **Pelosi on Natural Gas: Fossil Fuel or Not?**

WSJ, August 25, 2008; <http://blogs.wsj.com/washwire/2008/08/24/pelosi-on-natural-gas-fossil-fuel-or-not/>

John D. McKinnon reports on Nancy Pelosi's statements on energy.

House Speaker Nancy Pelosi's message on energy, already evolving in recent weeks, might have to evolve a little more.

On NBC's "Meet the Press" on Sunday, the speaker twice seemed to suggest that natural gas – an energy source she favors – is not a fossil fuel.

"I believe in natural gas as a clean, cheap alternative to fossil fuels," she said at one point. Natural gas "is cheap, abundant and clean compared to fossil fuels," she said at another.

The speaker apparently was trying to contrast her support for expanded use of natural gas as a motor-vehicle fuel, and many Republicans' preference for more domestic oil drilling — particularly through opening up more of the Outer Continental Shelf for exploration.

But according to [naturalgas.org](http://naturalgas.org), an educational Web site maintained by the Natural Gas Supply Association, "natural gas is the cleanest of all the fossil fuels."

Pelosi and her husband drew attention recently for their investment in T. Boone Pickens's Clean Energy Fuels Corp., which markets compressed natural gas and liquefied natural gas as a fuel for motor vehicles. Some leading Democrats, including Pelosi, have been eyeing legislation to encourage such uses of natural gas, as soaring gasoline prices have put pressure on Congress to do something. Amid steady pressure from Republicans, both Pelosi and Democratic presidential candidate Barack Obama also have signaled that they're open to expanding offshore oil drilling, as long as it's part of a comprehensive package that includes other energy alternatives.

Pelosi's investment in Clean Energy – between \$50,000 and \$100,000 – is a tiny fraction of the speaker's assets, as she pointed out on Sunday. "That's not the point," she added. "I'm investing in something I believe in."

Update: "She knows it [natural gas] is a fossil fuel but includes it because compared to other fossil fuels (coal and oil) it burns more cleanly," said Pelosi's spokesman, Brendan Daly. "Also, it is plentiful domestically and cheaper."

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### **Let's put politics aside and vote on energy plan**

Star Tribune, August 25, 2008; <http://www.startribune.com/opinion/commentary/27293044.html?elr=KArksUUUU>

By TIM WALZ and SHELLEY MOORE CAPITO

This summer, in a small room on Capitol Hill, something amazing occurred. A group of about 20 members of the House of Representatives -- equally divided between Democrats and Republicans -- put aside partisan differences, listened to each other's views and produced a compromise energy bill in the best interest of the American people.

And we discovered that when the bickering ended and the tired old slogans were put on the shelf, we were actually able to put together a balanced, reasonable approach to solving our nation's energy crisis.

For too long, our efforts to reach energy independence have been incomplete and too slow in the making. If NASA had employed the same sort of shoestring approach to the lunar missions that we've taken to addressing our dependence on foreign oil, we'd still be trying to determine how much rocket fuel it takes to get to the moon.

The urgency of our energy crisis demands that we develop a comprehensive solution. That's why we joined our colleagues on the Bipartisan House Energy Working Group to put aside the special interests and propose an energy package that addresses our nation's short-, mid- and long-term energy needs. In the days that followed the introduction of our bill, nearly 100 of our colleagues on both sides of the aisle quickly signed on in support of the National Conservation, Environment and Energy Independence Act.

Our bipartisan bill is founded on three basic, common-sense principles. First, America must produce more of our oil and gas at home because we can't keep buying it from countries that all too often do not have America's best interests at heart. Second, we must promote new alternative and renewable sources of energy, which requires a dedicated funding stream for research and development. Finally, we need to expand our domestic energy production in an environmentally smart way so our energy and economic future is sustainable.

In the short term, our bill would push gas prices down by increasing the domestic supply of oil through an exchange of a portion of our nation's Strategic Petroleum Reserve. By releasing a percentage of the reserve and replacing it with a more appropriate type of crude, we can make responsible use of our nation's reserve to seek lower prices without risking our security. Moreover, the money from the oil sold in the exchange would go directly to funding research into promising fuel sources, including wind, geothermal, clean coal and biomass products.

In the mid term, this legislation would increase our oil production by expanding drilling in the Outer Continental Shelf (OCS) off our coasts in a responsible manner and in partnership with coastal states. Under our bill, deep-sea oil drilling would be permitted from 50 miles off our coastline, although no drilling would be allowed within 25 miles of the shore and individual states would determine whether to drill from 25 to 50 miles off their coasts.

And in the long term, our country will benefit greatly from the expanded drilling because it will help finance alternative and renewable energy research and development. Expanded drilling in the OCS could generate as

much as \$2.6 trillion in royalties over the next decade. These new royalties will provide the resources to enable states with coastal drilling to invest in key environmental protections, and most importantly, it would allow the United States to provide nearly \$1 trillion in funding to speed up our nation's transition to new, cleaner energy sources that break our dependence on foreign oil.

Funding for expanded energy research and conservation, as well as environmental preservation and restoration efforts, isn't just a fortunate side effect of drilling; it is the outcome that we had in mind when we sat down together to hammer out a compromise energy bill.

This debate is too important to be handled with the same old political games that characterize too much of what happens in Congress these days. We must act quickly to become energy-independent if we want to stabilize our economy and strengthen our national security.

The way we see it, we have a choice: We can continue to stick with the same old arguments and political gamesmanship, or more Democrats and Republicans can join our efforts and promote a comprehensive, balanced solution to our nation's energy crisis.

There is no silver bullet, and it will take a wide-range of creative solutions to achieve our goals. From expanding domestic production, to alternative energy, to conservation and national security, this bill reflects a commitment to meeting our energy challenges with a truly bipartisan approach.

Our vision of an energy-independent America deserves a vote in Congress. We call on the leadership in both parties to bring this bill up for a vote when Congress goes back into session in September.

Tim Walz, D-Minn., and Shelley Moore Capito, R-W.Va., are part of the original Bipartisan Energy Working Group that wrote and introduced the National Conservation, Environment and Energy Independence Act.

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### **Why doesn't U.S. join Law of the Sea treaty?**

San Francisco Chronicle, August 25, 2008; <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/08/25/EDJL12GS9G.DTL&hw=law+of+the+sea+treaty&sn=001&sc=1000>

James Watkins, Leon Panetta

In 1909, when Admiral Robert Peary placed an American flag his wife had sewn by hand on a newly discovered icy region, the United States claimed the North Pole as U.S. territory. Recently, the Russians planted their flag under the very same spot. The race for the Arctic is heating up and the economic consequences are significant. While Russia becomes emboldened, the United States refuses to defend our economic and national security interests by joining the Law of the Sea Convention.

Last month, the U.S. Geological Survey released the most comprehensive assessment of the Arctic's energy resources completed to date. While the results are not altogether surprising to those in scientific circles, they will hopefully open the eyes of those in Congress who are struggling to address our energy crisis. According to the report, there is enough oil in the Arctic to meet world demand for almost three years. And the amount of natural gas in the region is even greater, potentially rivaling the reserve held by Russia, which was previously thought to be the world's largest.

The report explains, and possibly validates, the actions of some of our Arctic neighbors this past year, as well as those of oil enterprises eager to stake their claims. When Russia planted its flag on the ocean floor under the North Pole, Russians leaders knew what was up there. The rogue fishermen patrolling waters off the Alaskan shore surely know. And earlier this year, when Arctic nations met to discuss management strategies in the region, they knew too.

Not only does every other Arctic nation know that the melting ice caps are opening up new resources in these waters, but they all have done at least something about it, staking their claim in some way to what many believe is an economic treasure chest of energy reserves. That is, every nation except the United States.

Shockingly, the United States remains the only major industrialized nation that has not signed the Law of the Sea treaty. As a result, we do not have a seat at the table, or a say in other nations' efforts to extend their continental

boundaries in the Arctic and elsewhere. This prevents us from laying a legitimate claim to our share of valuable resources. And despite an unprecedented level of diverse bipartisan support to sign this treaty, the United States still can't seem to commit.

It's a shame that Senate can't seal this deal, considering all that's up for grabs. As melting ice caps now reveal, the amount of economic resources on the Arctic floor is staggering. The Geological Survey confirms that the area holds one-fifth of the planet's recoverable oil and natural gas reserves. It's no secret that the United States is struggling with a looming economic recession and rising energy prices, so access to these resources will be critical in order to preserve both our own financial well-being as well as our ability to compete economically with other countries. At a time when many are calling to open up the United States' outer continental shelf to offshore drilling, it is stunning that Congress remains unwilling to take the action needed to ensure U.S. access to Arctic oil and gas reserves.

According to representatives from all of the major ocean industries including offshore energy, shipping, international trade, telecommunication, fishing and shipbuilding, becoming party to the Law of the Sea treaty will significantly enhance our nation's economic security. In fact, leaders from these industries publicly supported U.S. accession to the treaty by signing a letter to the Senate and the president last fall. Organizations on that list included the Independent Petroleum Association of America, Chevron Corporation, the American Sportfishing Association, the Chamber of Shipping of America, the National Fisheries Institute and the American Petroleum Institute.

Melting ice, domestic financial woes and weakening international economic competitiveness make this a decisive moment in our nation's history. Sending Coast Guard ships on exploratory missions to map the Arctic floor is simply not enough. The time is now to get off the sidelines and lay claim to our seat at the Arctic table. The Law of the Sea treaty is in the hands of the Senate, awaiting a vote. It is in our economic and national security interests to join the 156 other nations as a signatory. The longer we delay, the more we stand to lose. And the Geological Survey proves that there is a lot to lose indeed.

Admiral James Watkins (retired) is the chairman of the U.S. Commission on Ocean Policy. Leon Panetta is the chairman of the Pew Oceans Commission. They co-chair the Joint Ocean Commission Initiative, which promotes meaningful ocean policy reform.

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## **Drilling Boom Revives Hopes for Natural Gas**

NYT, August 25, 2008;

[http://www.nytimes.com/2008/08/25/business/25gas.html?\\_r=1&scp=1&sq=drilling%20boom&st=cse&oref=slogin](http://www.nytimes.com/2008/08/25/business/25gas.html?_r=1&scp=1&sq=drilling%20boom&st=cse&oref=slogin)

By CLIFFORD KRAUSS

HOUSTON — American natural gas production is rising at a clip not seen in half a century, pushing down prices of the fuel and reversing conventional wisdom that domestic gas fields were in irreversible decline.

The new drilling boom uses advanced technology to release gas trapped in huge shale beds found throughout North America — gas long believed to be out of reach. Natural gas is the cleanest fossil fuel, releasing less of the emissions that cause global warming than coal or oil.

Rising production of natural gas has significant long-range implications for American consumers and businesses. A sustained increase in gas supplies over the next decade could slow the rise of utility bills, obviate the need to import gas and make energy-intensive industries more competitive.

While the recent production increase is indisputable, not everyone is convinced the additional supplies can last for decades. "The jury is still out how big shale is going to be," said Robert Ineson, a natural gas analyst at Cambridge Energy Research Associates, a consulting firm.

Still, many people in the natural-gas industry believe a new era is at hand, and a rising chorus of Wall Street analysts and Congressional lawmakers supports that notion. Competition among companies for rights to the new gas has set off a frenzy of leasing and drilling.

"It's almost divine intervention," said Aubrey K. McClendon, chairman and chief executive of the Chesapeake Energy Corporation, one of the nation's largest natural gas producers. "Right at the time oil prices are skyrocketing,

we're struggling with the economy, we're concerned about global warming, and national security threats remain intense, we wake up and we've got this abundance of natural gas around us."

Senior Democrats in Congress are getting behind natural gas, portraying it as an alternative fuel for transportation that can serve as a stopgap until renewable sources of energy, like solar and wind power, become economical on a broad scale.

"You can have a transition with natural gas that is cheap, abundant and clean," the House speaker, Nancy Pelosi of California, said Sunday on "Meet the Press" on NBC.

She also said that an investment she and her husband had made in a company that produces natural gas for use in automobiles, revealed last week by The Wall Street Journal, was not a conflict of interest because "I'm investing in something I believe in."

Representative Rahm Emanuel of Illinois, the chairman of the House Democratic caucus, has introduced legislation to offer more tax credits to producers and consumers of natural gas and mandate the installation of natural gas pumps in some service stations.

Domestic gas production was up 8.8 percent in the first five months of this year compared with the period a year earlier, a rate of increase last seen in 1959, during the great drilling boom that followed World War II.

Most of the gain is coming from shale, particularly the Barnett Shale region around Fort Worth, which has been under development for several years. The increase in gas production stands in sharp contrast to the trend in domestic oil production, which has been declining steadily since 1970 and dropped 21 percent in the last decade alone.

The Barnett region proved that, using new technology, shale gas could be extracted on a large scale. But lately, companies have set their sights on shale formations that could produce far more gas than the Barnett.

Testing to determine the productivity of fields has been completed on just a tiny fraction of the potential acreage. According to a new report by Navigant Consulting, paid for by a foundation allied with the gas industry, there could be as much as 842 trillion cubic feet of retrievable gas in shales around the country, enough to supply about 40 years' worth of natural gas, at today's consumption rate. But thousands of wells need to be drilled before the exact reserves will be known.

Domestic natural gas prices have already plunged 42 percent since early July, an even faster drop in price than oil or most other commodities, in part because the rapid supply growth has begun to influence the market. Price spikes remain possible, of course, but throughout the industry the shale discoveries are causing a shift in thinking about the long-term outlook.

Black or brown shales are a type of sedimentary rock, high in organic matter, found beneath millions of acres in at least 23 states, including New York. The rock has been known for more than a century to contain gas, but it was considered virtually worthless until a decade ago because typical wells on such sites would produce gas briefly and then die.

Now, companies are drilling long, horizontal wells and pumping in water to fracture the rock, releasing vastly more gas than could the vertical wells of old.

The Barnett was the first shale field to undergo major development, and gas production has gone up tenfold since 2001, so that it now produces 7 percent of the nation's supply of natural gas. At least two other shale formations, the Haynesville in Louisiana and Texas and the Marcellus in Appalachia, are believed to be even larger, though substantial production in those will take another two to five years.

Prospectors have identified at least two dozen shale beds in North America that could contain large amounts of gas.

"Production is clearly growing, and the growth is sustainable," said Michael Zenker, a natural gas analyst at Barclays Capital.

A Deutsche Bank report, by the analyst Shannon Nome, recently estimated that production from the eight largest shale fields was likely to hit 6.6 billion cubic feet a day this year, or 11.8 percent of national gas production, and then rise to 14.5 billion cubic feet a day by 2011 — almost a quarter of domestic production.

“Shale is the most significant domestic natural gas find in 50 years,” said Chris Ruppel, an analyst at the institutional brokerage firm Execution, “which means the United States will become gas independent, and more industrially competitive versus Europe for gas-intensive industries such as chemicals, fertilizer, smelting iron and aluminum.”

Shale gas could ultimately be important beyond North America. The rest of the world has shale formations on an immense scale. Many of them are known to contain gas, but exploration and assessment of those fields with the new production techniques have barely started.

Several large shale fields are being explored in Canada. In the United States, real estate speculators are becoming overnight millionaires in Pennsylvania, Louisiana and Texas by buying up parcels of land and flipping them to companies that drill for natural gas. Wildcatters are ordering every rig they can get their hands on, and paying signing bonuses of \$25,000 an acre to drill below houses, schools and churches. Pipeline companies are building as fast as they can to get the new gas to market.

As the frenzy unfolds, some energy experts urge caution in projecting how big the new supplies will be and whether they will alleviate the loss in productivity of conventional wells, particularly those in the Gulf of Mexico.

“It’s hard for me to believe we will have more domestic gas production in six years than we have now,” said Chip Johnson, president and chief executive of Carrizo Oil and Gas, a Houston company involved in several of the shale fields.

The Energy Department’s 2008 estimates for shale gas reserves that may one day be economically produced stand at 125 trillion cubic feet, about a seventh of the most optimistic industry estimates. Jeffrey Little, a department gas analyst, said the government estimate was based on 2006 data and could increase after further testing.

“The larger reserves could very well be out there, but their magnitude is uncertain,” he said.

Some industry experts warn that shortages of engineers and rigs, scarcity of pipelines near some shale fields and fights over land and water use could slow development in some states.

In the Marcellus field, drilling and pipeline work must be done over woody and hilly terrain, and enormous amounts of water are needed to fracture the shale. Drilling has been halted in places after local regulators caught companies drawing water from streams without permits.

“We see natural gas as potentially a very important transitional fuel, but we can’t use it at the expense of our natural resources,” said Kate Sinding, a senior lawyer for the Natural Resources Defense Council, who warned that water-intensive drilling in shale could threaten local water supplies and aquifers.

Domestic gas production was in decline from the early 1990s to 2005, before production from shale beds and some lesser unconventional fields led to increases beginning in 2006. In the meantime, consumption increased by more than 15 percent, satisfied largely by rising imports.

Prices in recent years soared from less than \$2 per thousand cubic feet in 1999 to more than \$13 as recently as last month, before a precipitous decline in recent weeks. Natural gas closed Friday on the New York Mercantile Exchange at \$7.84 per thousand cubic feet, the lowest price since Feb. 1.

With the growth of power generation from natural gas, the Energy Department estimates that gas consumption will increase 3 percent this year and an additional 1.7 percent in 2009. But that is well below expected supply increases.

Such increases carry risks. Some in the gas industry fear that if prices fall too much, producers will pull back on their investments in drilling and development. “If prices drop much more,” said Mr. Johnson of Carrizo Oil and Gas, “producers will slow down or at least not be as aggressive.”

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