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Natural gas price hits 13-month low
Houston Chronicle, October 23, 2008; http://www.chron.com/disp/story.mpl/headline/biz/6074798.html

Drilling to core of oil debate
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How Oil Drilling Could Power the Future
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Gas Price Drop Brings No Joy To Republicans
Business Investor's Daily, October 24, 2008;
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BY SEAN HIGGINS

Gas prices have plunged in recent weeks, from a national peak of $4.11 a gallon in mid-July to $2.78 today, according to AAA.

In fact prices have fallen so sharply they're falling off the political radar as well. That's bad news for Republicans.

In late summer they made a mini-comeback in the polls by calling for more domestic drilling. But falling prices have robbed the GOP of one of its strongest issues.

"The decline takes the steam out of the Republican charge that we've got record gas prices and Democrats don't want us to develop our resources," said Robert Murphy, senior fellow at the free-market Pacific Research Institute.

Meanwhile, the financial crisis and the prospect of a sharp recession have taken center stage.

A George Washington University study found that only 4% of Americans rate gas and energy prices as their top issue vs. 37% who cited the overall economy.

In August, John McCain led 40%-37%, on: would do a better job of reducing gas prices. Now Barack Obama leads, 41%-38%.

GOP's Summer Glow

That's not what Republicans envisioned when prices topped $4. They responded by calling for more domestic drilling in areas put off-limits by Congress.

They argued that the high prices were a supply and demand problem that could be fixed by drilling in Alaska and off the Outer Continental Shelf.

Congress' Democratic leadership resisted those efforts as anti-environment. They preferred to blame the high prices on oil speculators and corporate greed.

By late summer the tide was on the GOP's side. A late August CNN poll found 74% of the public favored offshore drilling. Only 24% opposed it.

McCain chose Alaska Gov. Sarah Palin as his running mate in part because she was a forceful advocate for drilling. During the GOP convention in Minnesota, Republicans repeatedly broke into chants of "drill, baby, drill!"

Early September polls had McCain tied or slightly ahead of Obama. A Sept. 7th Gallup poll even had the Republicans leading Democrats, 50%-45%, in the generic congressional vote, for the first time this year.

Democrats retreated. First, they passed a bill on Sept. 16 that would let states OK some offshore drilling, though states wouldn't get any of the revenue.

The next week Democrats let the drilling moratorium itself lapse.

Republicans cheered and vowed to press further.

"The capitulation by Democrats today is a big victory for Americans struggling with record gasoline prices," said House GOP Leader John Boehner, R-Ohio, in a Sept. 23 press release.

But that victory was short-lived. As global financial markets collapsed last month, voters' economic concerns turned elsewhere.

Drilling Issue Runs Dry

Crude oil accelerated its sell-off while drivers started to see a real impact at the pump.

Oil has plunged from $147.27 a barrel on July 11 to just $64.25 as of Oct. 24, a 56% drop.

Gasoline prices have fallen by $1 a gallon in just a month — with more big declines on the way.

"Everybody is focused on the financial stability of Wall Street," said a D.C.-based oil industry source. "All they can think of is the (economic) stimulus package."

Normally the decline in pump prices would make people feel better, says Ross Eisenbrey, vice president at the liberal Economic Policy Institute. But other economic fears are drowning that out.

The drilling issue "clearly did have some effect" he adds. "It was high on the list of things that people cared about." Now it is not even in the top five, he says.

At a pair of Virginia campaign rallies last week, people still talked about the price of gas, but it had clearly taken a backseat to other issues.

At an event in Leesburg, Va., Obama talked a lot about economics — including taxes, the mortgage crisis and his own recovery plan.

He brought up gas prices just once. While he said it was getting "harder and harder" for families to fill their tanks, he didn't link that specifically to gas prices. Instead he cited it in passing as part of a laundry list of problems struggling families face.

"Our economic problems transcend just energy," said David Axelrod, Obama's chief strategist, when asked by IBD why Obama didn't address the issue more.

Asked about the virtual disappearance of gas price rhetoric, voters at the Obama rally simply shrugged.

"How can you spend a lot of time on it when you've got a captive audience? You can only hit so many issues at a time," said Tommy Thomas, a retired Air Force colonel.

The atmosphere was different at a GOP rally in Woodbridge, Va., when people again broke into chants of "drill, baby drill."

But Republican ads in recent weeks have focused on issues like taxes and Joe the Plumber instead.

OPEC slashes production by 1.5 million barrels per day
WSJ, October 24, 2008; http://online.wsj.com/article/SB122484057300166131.html?mod=testMod

VIENNA -- A decision by the world's main oil exporters to slash output by 1.5 million barrels a day fell on deaf ears Friday as deepening gloom in global financial markets drove crude prices down to their lowest levels since May 2007.

The plunge in oil prices -- down 33.2% since the start of the year and 55.8% from the summertime high -- shows how OPEC faces a struggle to tighten the spigot fast enough to buttress prices in the face of the global economic slowdown.

The cut, to be implemented mainly by top producer Saudi Arabia, represents nearly 2% of world demand. It is also the largest single reduction by the Organization of Petroleum Exporting Countries in almost eight years.

Oil markets were unimpressed by the cartel's decision. U.S. benchmark crude for December delivery fell $3.69 on Friday, or 5.4%, to $64.15 on the New York Mercantile Exchange.

OPEC ministers defended the cut by insisting the oil market is now a victim of the overall economic downdraft. The announcement came on a day when stock markets notched more steep falls from Asia to the U.S. OPEC ministers argued it would be wrong to leave oil production unchanged as the economic turmoil eats into world demand for oil.

"OPEC has nothing to do with the financial crisis as it happened," said Saudi Arabia's oil minister, Ali Naimi.

OPEC President and Algerian oil minister Chakib Khelil said the cartel's members would live up to their target cuts, even if that caused additional budget strains. "What choice do they have -- to see the price go down further?" he told reporters. "They have to cut."

Just months ago, when oil was soaring to more than $140 a barrel amid talk of unstoppable demand growth in Asia and the Middle East, most in the industry doubted that crude prices would ever touch $50 a barrel again. Now, many fear that prices could slip below that threshold within weeks, wrecking havoc on overstretched OPEC members' budgets and potentially forcing suspension of crucial exploration projects.

Recent events have raised the specter in OPEC circles of the meltdown of the late 1990s, when disarray within the cartel and falling demand in Asia caused prices to plummet to $10 a barrel in early 1999.

As the supplier of about 40% of world oil needs, the 13-member cartel is scrambling to manage a collapse in prices that it described Friday as "unprecedented in speed and magnitude." One problem for the cartel is that oil traders appear convinced that OPEC won't have the discipline to restrain production to keep abreast of falling demand.

Saudi Arabia's Mr. Naimi said the cut will take effect Nov. 1, while other ministers raised the possibility privately that the group may have to meet again next month to consider further cuts if this one has little impact.

Saudi Arabia, by far OPEC's biggest producer, agreed to slice production by 466,000 barrels a day. Iran is set to cut output by 199,000 barrels, while Kuwait, the United Arab Emirates and Venezuela have all pledged to trim about 130,000 barrels a day.

David Kirsch, head of the market-intelligence group at PFC Energy, said the size of the Iranian pledge was key, as it demonstrated a willingness to show discipline across the cartel. "All parties within OPEC have a stake in seeing prices stabilize," he said.

Some analysts warned that OPEC was justifying its cuts with overly pessimistic demand forecasts for next year, combined with overly rosy views on increases in non-OPEC production. Paul Horsnell, an energy analyst at Barclays Capital in London, said the OPEC decision went "well beyond the minimum requirements" and that the market would almost certainly tighten "a few months down the road."

The White House criticized the OPEC move. "The value of commodities, including oil, should be determined in open, competitive markets, and not by these kinds of antimarket production decisions," said White House spokesman Tony Fratto.

The cuts come, though, as U.S. oil demand continues to plummet, despite falling gasoline prices. The Energy Department says the country's oil use over the last four-week period is off 8.5% from the year-ago period.

The Transportation Department says the number of miles driven in the U.S. in August fell 5.6%, the steepest drop since 1942, when the U.S. first started tallying traffic patterns.

Obama and McCain share energy goals

Ventura County Star, October 23, 2008; http://www.venturacountystar.com/news/2008/oct/23/obama-and-mccain-share-energy-goals-but-their-in/

By Michael Collins

WASHINGTON — Like other environmentalists, Alan Sanders has listened with apprehension as Barack Obama and John McCain have preached about the need for the United States to end its reliance on foreign oil.

Something important has been missing from the debate, he said.

Neither presidential candidate has made it clear how he intends to protect the environment while pushing to make the country "energy independent," said Sanders, conservation chairman of the Los Padres Chapter of the Sierra Club.

"What you hear a lot is, Well, we'll do this, and we'll do that, and protect the environment,' when there is really no clear thinking on how you would go about doing that," Sanders said.

The record high $4-a-gallon gas prices in the summer have made energy one of the key issues in this year's presidential campaign, with the two candidates pushing plans to help the country produce more of its own power and still cope with the problem of climate change.

Much of the debate has focused on drilling for more oil and gas off the nation's coasts. Both Obama and McCain had opposed expansion of offshore drilling but have since changed their positions.

McCain supported a federal ban on offshore drilling when he ran for president in 2000, but in June he said he favors more drilling as a way to bring down gas prices and reduce dependence on foreign oil.

Obama also had opposed offshore drilling but softened his stance in August, saying he'd be willing to consider more drilling in a number of limited areas as long as it's part of a broader energy package.

Oil and gas industry encouraged

The oil and gas industry and other proponents of drilling are encouraged by the candidates' redefined positions.

"We're just happy there is now a discussion out there, positive movement toward getting access to valuable offshore energy resources," said Nicolette Nye of the National Ocean Industries Association, which represents the oil and gas industry. "We're looking forward to working with either administration on the issue."

But opponents, like Rep. Lois Capps, D-Santa Barbara, say the candidates' openness to drilling is disturbing.

Capps, an Obama supporter, said she was disappointed by Obama's change of heart. But, "I don't think it puts him on the same page as McCain by any stretch of the word," she said.

While "drill, baby, drill" has become the mantra of McCain and other Republicans, Obama has said limited offshore drilling may be the price that Democrats have to pay to win support for a broader energy policy.

"I don't particularly agree that we need to pay that price," Capps said.

Proposals differ in scale, scope

Even so, she said, Obama's position of limited drilling is more palatable than McCain's energy proposal, which places much more emphasis on drilling.

Obama and McCain haven't limited their energy discussion to offshore drilling. Both have embraced the idea of investing in alternative energy sources, although their proposals differ in scale and scope.

Obama wants to invest $150 billion over 10 years to develop biofuels and other alternative sources, such as wind, solar, hybrids and clean-coal technology. He says he would require the use of at least 60 billion gallons of advanced biofuels by 2030 and would invest federal resources, such as tax incentives and government contracts, into developing the most promising technologies.

McCain says he would commit $2 billion annually to advancing clean-coal technology and promises to encourage the market for alternative, low-carbon fuels such as wind, hydro and solar power. He has said that he opposes government subsidies for ethanol, but that he favors long-term energy solutions.

McCain also is emphasizing the need for nuclear energy. If elected, he pledges to build 45 nuclear power plants in the United States by 2030, a proposition environmentalists find abhorrent.

"The only way one can even contemplate building more reactors is if you have completely a case of amnesia regarding what happened the last time we went fully into a nuclear enterprise," said Daniel Hirsch, president of the Committee to Bridge the Gap, a nuclear watchdog group in Los Angeles.

Hirsch's group has been involved in the fight to clean up contamination at the Santa Susana Field Laboratory, a 2,800-acre site south of Simi Valley that was used for decades to test nuclear reactors and rocket engines. One reactor at the site suffered a partial meltdown in 1959, and two others suffered serious accidents in the 1960s.

Terribly dangerous technology'

Advocates argue that nuclear power, if managed properly, is no more dangerous than other forms of energy and would help the country achieve its goals of finding cleaner power sources.

But Hirsch said the experience at Santa Susana "is a warning that this is a terribly dangerous technology, and we don't know how to control it."

Obama and McCain go separate ways on another issue of interest to California, and Ventura County in particular.

Both voted in 2005 for an energy bill that pre-empted state authority for licensing of liquid natural gas terminals and gave it to the Federal Energy Regulatory Commission.

But Obama also supported a failed amendment to that bill that, had it passed, would have given states the sole authority over LNG siting. Obama also has backed other proposals that would return LNG siting authority to the states.

Reducing greenhouse gasses

"McCain is so fossil-friendly, he is willing to give up states' rights' to benefit energy companies," said Tim Riley, a consumer protection attorney in Oxnard who was one of the activists who successfully fought plans to build an LNG terminal off the coast of Oxnard.

Both Obama and McCain have plans for reducing greenhouse gas emissions.

Obama says he would push for mandatory reductions of carbon dioxide and other greenhouse gases by 80 percent of 1990 levels by 2050. His main strategy for achieving that goal would be a "cap-and-trade" system, which would limit emissions and allow power plants and other major polluters to trade credits to emit greenhouse gases.

McCain also supports a "cap-and-trade" system, but he would require polluters to reduce emissions by 60 percent of 1990 levels by 2050, he said.

What's really needed, said the Sierra Club's Sanders, is something similar to the Manhattan Project, an initiative that resulted in the building of the nuclear bomb, to help the country develop clean, alternative sources of energy.

But, "as long as the focus is on drilling, we're just not going to be going in that direction," Sanders said.

Natural gas price hits 13-month low
Houston Chronicle, October 23, 2008; http://www.chron.com/disp/story.mpl/headline/biz/6074798.html

Bloomberg News-Natural gas futures in New York fell to the lowest price in 13 months after a government report showed a bigger-than-average increase in U.S. supplies of the heating and factory fuel.

Stockpiles advanced 70 billion cubic feet in the week ended Oct. 17 to 3.347 trillion cubic feet, the Energy Department said today. Sufficient supplies in storage help utilities and large industrial consumers meet demand during the cold-weather season, when usage outstrips production. The average supply increase this time of year is 62 billion cubic feet.

“We’re sitting in a really great spot as far as the amount of natural gas we have coming into this heating season,” said Michael Rose, a director of trading at Angus Jackson Inc. in Fort Lauderdale, Florida.

Natural gas for November delivery fell 35.8 cents, or 5.3 percent, to settle at $6.419 per million British thermal units on the New York Mercantile Exchange, the lowest closing price since Sept. 25, 2007. Prices are down 5.1 percent from a year ago.

The surplus to the five-year average last week was 93 billion cubic feet, or 2.9 percent, after widening for four consecutive weeks. Supplies now exceed the five-year average of 3.327 trillion cubic feet that’s on hand at the start of the heating season in early November, when 52 percent of U.S. homes count on gas to keep them warm.

“Clearly, the market is well supplied,” George Ellis, a director in the energy derivatives group at BMO Capital Markets in New York, said before the report. “There is some talk the U.S. winter may not be that cold in the consuming east regions.”

A worsening economic outlook in the U.S. is also dragging gas lower, Ellis said.

The number of Americans filing first-time claims for unemployment benefits increased last week, a sign the credit crisis is hurting employment, a Labor Department report showed.

A slowing economy would cut demand for gas from commercial and industrial companies, which accounted for 42 percent of U.S. consumption in 2007.

Energy producers have restored 66 percent of the 7.4 billion cubic feet of gas a day normally produced in the Gulf of Mexico, after hurricanes Ike and Gustav last month shut production platforms and pipelines, the U.S. Minerals Management Service said today.

“When you look back at the number of days we were down the supply is pretty amazing,” Rose said. “Once it’s all up and running there’s going to be a lot of gas” available this winter.

Supplies are also being bolstered by higher output from domestic onshore fields.

Stockpiles will probably reach 3.47 trillion cubic feet by the end of October, George Hopley, an analyst at Barclays Capital Inc. in New York, said in a report this week.

“A normal winter would result in a cumulative seasonal draw of 1.8 trillion cubic feet, leaving about 1.7 trillion in storage at the end of March,” Hopley said in his weekly gas outlook.

U.S. production is expected to increase 6.7 percent this year, particularly from fields in Texas and Wyoming, the Energy Department said in a monthly report on Oct. 7.

Drilling to core of oil debate
Chicago Tribune, October 23, 2008; http://www.chicagotribune.com/news/nationworld/chi-drill-baby-drilloct23,0,1688289.story

Energy fuels plenty of political rhetoric, but neither side has a lock on the facts
By Howard Witt

INDEPENDENCE HUB, Gulf of Mexico — They're drilling out here, baby, they're drilling.

Bobbing in the middle of the Gulf of Mexico, some 175 miles south of Mobile, Ala., this mammoth production platform perched above the deepest undersea wells on Earth is pulling up enough natural gas every day to heat or cool 5 million American homes. That's 10 percent of all the natural gas being produced from the gulf, and nearly 1 percent of total U.S. production.

But the question is for how long, because the wells that the Independence is tapping could be depleted within five years—and Washington has long placed potential new oil and gas fields to the east off-limits to expanded drilling.

American voters trying to figure out whether more offshore drilling is a good idea will get their say next month, because their choice of a new president and Congress will determine how aggressively the United States pursues the reserves of oil and gas that are thought to lie along the nation's coastlines.

As it happens, this $2 billion platform sits at the intersection of all the partisan rhetoric swirling over the nation's future energy direction, between the GOP claim that expanded offshore drilling is the answer to the country's energy woes and the Democratic insistence that there's not enough undersea supply to justify the environmental risks of exploiting it.

As with most complex issues, the truth lies somewhere between the extremes.

For more than 20 years, the waters off America's East and West coasts have remained largely off-limits to oil and gas exploration because of moratoriums issued out of environmental concerns. Only the western and central sections of the Gulf of Mexico, and a few areas off California, have remained open for energy production.

But sharp spikes in world energy prices over the last year, combined with growing concerns about the security of the imported supplies the U.S. relies on for more than 60 percent of its oil consumption, thrust the offshore drilling bans into the middle of the presidential campaign. However, oil prices, which were record-high at nearly $150 a barrel this summer, have now fallen below $70, bringing down prices for gasoline as well.

While Congress and the White House made some moves regarding drilling, no new offshore drilling leases will be issued until a new president and Congress decide the matter definitively.

To Sen. John McCain, who enthusiastically took up the chant of "Drill, baby, drill!" that echoed through the hall at the Republican National Convention in September, opening new coastal areas to oil and gas drilling is an imperative that, he said, will help lower oil prices "because when people know there's a greater supply, then the cost of that will go down."

Sen. Barack Obama, the Democratic presidential nominee, has sought to offer more nuance on the issue, citing the need to transition the country to alternative energy sources and away from its dependence on oil.

"We're going to have to explore new ways to get more oil, and that includes offshore drilling," he said during the presidential debate Oct. 7. "But we have 3 percent of the world's oil reserves and we use 25 percent of the world's oil. So what that means is that we can't simply drill our way out of the problem."

No one knows just how much oil and gas lies within 200 miles of the U.S. coasts. The Minerals Management Service of the Interior Department has estimated that the off-limits areas could contain an additional 18 billion barrels of accessible oil, on top of 68 billion barrels still beneath the sea in the areas where drilling is allowed.

That new offshore oil would be enough to cover the nation's energy needs for nearly 2 1/2 years.

But the U.S. oil industry views that estimate as conservative, largely because it is based on decades-old research that has not been updated using the latest seismic exploration tools.

"The ultradeep water is one of the places you can find really big quantities of oil and gas," said James Hackett, chairman and chief executive officer of Houston's Anadarko Petroleum Corp., which operates Independence Hub. "We don't know what's out there. But we think it's a place that can really make a difference for the world."

Republican leaders contend that the expansion of offshore energy production would reduce U.S. dependence on volatile foreign oil suppliers, lower international oil prices by increasing supplies and boost the U.S. treasury via government auctions for leasing rights to new offshore areas.

"It's absurd that Congress will not allow there to be drilling in the eastern portion of the gulf. In fact, it's almost criminal," said Rep. Ted Poe (R- Texas), who toured Independence Hub last week. "We need to drill offshore, take care of ourselves and create jobs."

Foes of expanded offshore drilling, including environmentalists, many Democrats and governors of several coastal states, beg to differ.

They contend that opening up new coastal areas will have no immediate impact on oil prices because it would take up to a decade for energy companies to complete exploration surveys, build drilling platforms and begin production. What's more, critics argue that the oil companies have failed to fully exploit all of the offshore areas they have already leased.

"Big Oil is stockpiling these leases, as they enjoy record profits, while Americans feel the pain at the pump," Rep. Nick Rahall, the West Virginia Democrat who heads the House Natural Resources Committee, said in a radio address last summer.

"This whole 'Drill, baby, drill' mantra alludes to a future that's not possible," said Robert Kaufmann, director of the Center for Energy and Environmental Studies at Boston University. "We are not ever going to be self-sufficient in oil."

The oldest concerns are environmental. Opponents cite several disastrous offshore platform blowouts in the 1960s and '70s, which fouled coastlines and destroyed fisheries in California, Texas and Mexico, as sobering reminders of the risks of offshore oil production.

Moreover, they maintain that the thousands of miles of coastal pipelines needed to carry the oil and gas from the offshore platforms, as well as vast networks of onshore refineries and storage plants, endanger sensitive wetland areas and threaten vital tourist areas.

"Offshore drilling is a needless risk, and there are better solutions to provide efficient, clean energy for America's future," said Frances Beinecke, president of the Natural Resources Defense Council.

Oil industry officials counter that modern drilling technology provides much greater environmental protection than a generation ago. They cite government data showing that oil spills equaled less than 0.001 percent of the total barrels of oil produced offshore from 1971 to 2007. And even a series of major hurricanes that pushed through the Gulf of Mexico in the last three years, although they damaged hundreds of offshore oil and gas rigs, did not trigger any major environmental disasters.

Many Obstacles to Drilling Remain
WSJ, October 23, 2008; http://online.wsj.com/article/SB122471943387460733.html?mod=googlenews_wsj

Sen. Lisa Murkowski raises critical points about the challenges facing the U.S. with respect to energy production on the Outer Continental Shelf in her Oct. 18 op-ed, "How Washington Can Help Alaska Drill."

Assuming neither the next president and/or the new Congress reinstates the ban on OCS exploration, which expired on Sept. 30 of this year, huge legal and procedural barriers remain to increased domestic production. Sen. Murkowski cites Environmental Protection Agency inefficiency and negligence on the part of the Ninth Circuit Court to rule on pressing legal matters in a timely fashion, but these issues are just the tip of the proverbial iceberg.

According to Interior Department data, lawsuits and other environmental appeals against energy projects have increased by more than 700% since 2001, severely crippling development. Add to this backlog an outdated and cumbersome regulatory process known as the National Environmental Policy Act, which hasn't been updated since 1970, and it's a wonder the U.S. produces any energy at all.

So while the expiration of the OCS energy ban was indeed a positive step, it will, in some regards, become meaningless if we do not incorporate some common sense into the permitting process.

Barry Russell
President and CEO
Independent Petroleum Association of America

How Oil Drilling Could Power the Future
US News and World Report, October 22, 2008;
http://www.usnews.com/articles/science/environment/2008/10/22/how-oil-drilling-could-power-the-future.html

Offshore drilling is mostly what we hear about, but America has a lot of oil that might one day prove useful

By Michael Schirber, LiveScience

Editor's Note: Each Wednesday LiveScience examines the viability of emerging energy technologies—the power of the future.

"Drill, baby, drill," is the mantra of those who think America must free up its domestic oil supplies, but drilling offshore is not the only option.

The United States is the third largest oil producer in the world (about 8 million barrels per day), but it is also the number one consumer of oil (20 million barrels per day).

Polls have shown that a majority of Americans want an increase in offshore drilling. In response, Congress let a 27-year-old moratorium on offshore oil drilling expire at the end of last month. This put into play about 16 billion barrels of oil (or about 21 percent of U.S. offshore resources), according to the Department of Energy (DOE).

However, this is just a drop in the bucket.

"We have significant oil and natural gas resources here in the United States," said Richard Ranger, a senior policy advisor for the American Petroleum Institute. He quoted government estimates that say federal lands have 116.4 billion barrels of undiscovered technically recoverable oil, which could power 65 million cars for 60 years.

Even more oil is out there beyond what is "technically recoverable."

For example, new technologies called enhanced oil recovery (EOR) can pump out some of the oil left stranded by standard extraction techniques (which can only reach about a third of the oil in a reservoir). The United States could get 240 billion barrels from EOR, according to a 2006 DOE report.

And then there is oil locked up in sand and rock. Colorado and other western states have the world's largest deposits of oil shale: a sedimentary rock containing a solid oily substance. If better extraction methods can be devised, American oil shale could supply roughly 2 trillion barrels-worth of oil, which is more than double all the traditional crude oil that humans have has so far used.

Unknown potential

With all this oil presumably there for the taking, why then the political drive to open up drilling offshore, or in the Arctic National Wildlife Refuge (ANWR)?

"Industry is already aggressively pursuing the oil and natural gas potential of lands that are not off limits," Ranger told LiveScience. "But in order to maximize the ability to develop energy resource potential within our own borders, we need to be able to have access to those areas where the energy potential exists, but may not be well understood."

There may be much more oil offshore than people have thought. A recent example of how oil resources are sometimes underestimated is the Gulf of Mexico, where oil companies have so far produced more than double the oil that was predicted in 1984 to be available at the site, Ranger said.

Advocates for more drilling say that we can't know what's there without looking.

"When Americans are allowed to drill, even on the small 4 percent of government lands that we are permitted to even look, our oil and gas reserves go up," reads a statement from the Institute of Energy Research.

Diversify

Ranger thinks the right strategy is to pursue several options, including "removal of barriers to domestic production, encouragement of energy efficiency and conservation to reduce demand, and encouragement of investment in long-term energy initiatives and advanced technologies, including renewables."

Among these options is EOR, which can obtain an extra 20 percent of oil from mature oil fields and so-called "marginal oil wells." One way to do this is by pumping carbon dioxide underground to help force more oil out of the ground. As such, this would double as a carbon sequestration scheme.

Ranger quoted a recent report from the National Petroleum Council, which says that streamlining regulation and increasing research and development in EOR could result in an additional 90 billion to 200 billion barrels of oil in the United States.

"The opportunity for nearer term production is probably greater with EOR, but the opportunity for discovery of new reserves in significant amounts is probably greater [with offshore and ANWR]," Ranger said.

Other possibilities, such as oil shale, are further out. Some countries, including Estonia and China, use shale oil for heating and electricity generation, but making gasoline is still a challenge.

"The technology to extract energy fuels from oil shale at scale remains in the developmental stage," Ranger said.

The U.S. government's recent $700 billion bailout could help. It includes a 50 percent tax break for the building of refineries that process oil shale, as well as tar sands.

Environmental concerns

None of these options appeal to environmentalists. It is not yet clear that burying carbon dioxide underground is safe or effective, while the mining of oil shale could affect large strands of wilderness and require great quantities of water.

Perhaps the most immediate concern, though, is offshore drilling.

"Offshore is dangerous because of increased spillage caused by increasingly violent storms, fueled by climate change," said Greenpeace spokesperson Daniel Kessler.

It was the threat of oil spills and their impact on beaches and marine environments that originally led to the U.S. moratorium on offshore drilling.

Ranger says that drilling no longer poses the same dangers. New technologies, such as blowout preventers and high-pressure safety valves that close automatically, have greatly reduced the chances of accidental spills.

Other advances are also lessening the impact of drilling. Remote sensing, for example, has improved the success rate for finding oil reservoirs by as much as 50 percent, Ranger said.

"The result: fewer wells need to be drilled to find a given target and production per well is increased," Ranger said.

Environmentalists like Kessler aren't convinced that any new wells need to be drilled.

"The most salient point is that we don't need these resources," he said. "We have the technology available right now to reduce our demand and to transfer over to an economy fueled by renewable energy."

U.S. Has Started Process to Sell New Offshore Drilling Leases, But Next President and Congress Could Stop It
CNS News, October 22, 2008; http://www.cnsnews.com/public/content/article.aspx?RsrcID=37915

By Josiah Ryan, Staff Writer

With the Sept. 30 expiration of a congressional ban on offshore oil drilling now passed, the U.S. government’s Mineral Management Service (MMS) has begun preparation to lease offshore oil drilling permits to oil companies for portions of federal waters, Nicholas Pardi, a spokesman for the MMS, told CNSNews.com on Tuesday.

Unless Congress or the next president intervenes, the MMS’s preparation – which includes environmental studies and periods for public comment – will be complete in the summer of 2010, at which time leases will be issued.

Democratic members of Congress and a spokesman for the environmentalist group the Sierra Club, however, have indicated to CNSNews.com that they think the expired offshore oil drilling ban will be partially restored in the less politically charged environment after the elections and long before a single lease is issued by the MMS.

On July 30, two weeks after President Bush lifted an 18-year presidential ban on offshore oil drilling, Interior Secretary Dirk Kempthorne directed the MMS to take the first steps towards launching a five-year process mandated in a 1953 law – the Outer Continental Shelf Lands Act – by which the government may lease its waters for oil exploration.

“The American people and the president want action, and this initiative can accelerate an offshore exploration and development program that can increase production from additional domestic energy resources,” said Kempthorne in a press statement on July 30.

When Kempthorne took that step in July, the 27-year-old congressional ban on offshore oil drilling was still in place, but Kempthorne said his department was acting in anticipation of the possibility that the ban would be lifted or expire.

“The action could give the next administration a two-year head start in expanding energy production from federal offshore jurisdictions, including some areas where a congressional ban had prevented oil and gas development” said Kempthorne.

On Sept. 30, Congress allowed the ban, which proved to be highly unpopular with the majority of Americans, to expire.

Democratic congressmen and sources on Capitol Hill, however, indicated that they thought the threat of oil drilling was not imminent, and that the ban could be restored after the election without any drilling actually occurring.

“Nobody’s going to be drilling offshore in the next three months,” Sen. Richard Durbin (D-Ill.) told CNSNews.com at a Sept. 18 press conference.

Josh Dorner, a spokesman for the Sierra Club, told CNSNews.com that his organization is depending on either Congress or the next president to at least partially restore the drilling bans before the MMS is ready to issue leases.

“When Congress allowed the ban to expire, the point was to leave it to the next Congress to deal with in a much less politically charged atmosphere and not right before an election,” said Dorner. “We expect that the issue will be addressed by the Congress and by the executive, depending on who the next president is.”

“Obviously our hope is that our next president is Obama, and obviously, we will be looking at expanded environmental majorities in the Congress,” Dorner told CNSNews.com. “We have high hopes about moving forward with clean energy and leaving this oil-centric model behind.”

Credit Crunch May Hit Natural Gas Drilling
Investor’s Business Daily, October 21, 2008;
http://www.investors.com/editorial/IBDArticles.asp?artsec=16&artnum=1&issue=20081021

BY ALAN R. ELLIOTT

U.S. natural gas producers last year pulled off the biggest annual output jump since 1984. The industry is on track for a repeat performance for '08.

But the outlook for natural gas has gone hazy as economic and financial turmoil engulfs a growing number of firms.

Gas prices are 47% below their July peak. That would, under any conditions, set producers to battening hatches.

But the current pullback is complicated by tight corporate credit markets and withered stock values. These divide a growing number of gas producers from the sources of capital that have made their business models tick.

Chesapeake Energy (CC) sliced $3 billion off its '09 budget in mid-September. Dunbar Resources, (DNR) Petrohawk Energy, (HK) Quicksilver (KWK) and Sandridge Energy (SD) soon followed with similar cutback plans.

All of these firms were highly leveraged, maximizing production by carrying heavy debt loads, says Ken Austin, a senior analyst at Moody's. They invested faster than they could generate cash.

"All the companies that have cut back spending at this point were way outspending cash flow," said Joseph Allman, an analyst with JPMorgan.

Beleaguered banks are in no mood to lend, especially to extended gas firms as prices plunge.

Recent budget cuts have pulled the overstretched gas firms back within their balance sheets, Allman said. But their production goals remain high. Projected 2009 increases range from 16% to 35%.

Others appear less durable. Falling gas and equity prices are threatening to bite into the checkbook drillers, the wildcat operators that thrive on small, revolving lines of credit. Collectively, these vulnerable independents could help make the industry's supply and price swings more volatile.

"The real question is, to what extent does this financial thing that's taken place exacerbate the kind of reaction you would otherwise have to a falling price?" said Harold Korell, chairman and CEO of Southwestern Energy.

Producers manage each well site according to the cost basis of its development, production and land-lease expense. When fuel prices decline, producers first back off output at sites with the highest per-unit costs, where margins are first to dwindle to zero.

"That allows you to turn (your output) down or turn it up, based on your ability to bring capital or technical resources or equipment and services," said Michael Watford, chairman and CEO of Ultra Petroleum.

Both up- and downturns can be extreme. The industry hurled more than 600 drilling rigs into service during the gas run-up that took prices from less than $3 per million btu to more than $9 in '99 and '00. The sudden oversupply reversed prices, to back below $2 by the end of 2001.

"Within six months 400 drilling rigs were laid down," Karol said.

Some say the industry is facing another such pullback. Goldman Sachs forecast on Oct. 12 that 350 drilling rigs would be idled in '09, and cut next year's EPS targets among drillers by 28% and by an additional 40% for '10.

Gas companies have slim margins to cope with lower prices.

"Last year, only 35% of the plays in the U.S. generated more than a 10% profit margin," said Phillip Stack, vice president with HIS. "In 2005, when we had $9 gas because of the hurricanes, 85% were 10%-or-better profitable."

But have producers backed off since gas prices began tumbling in July? Allman conducted an informal poll of operators.

"Overwhelmingly the answer is no," he said.

Hurricanes Gustav and Ike to some degree staved off the need for voluntary cuts by shutting in virtually all of the Gulf of Mexico's seven billion cubic feet per day of offshore production in September.

Gas futures perked up briefly after the shut-ins, then settled back to 10-month lows. The Minerals Management Service says 2.7 billion cubic feet of daily output remains offline.

Is it possible, with that kind of production loss, that the natural gas industry is still oversupplied?

"Yes, it is," Hartford said. "And that's driven by the growth of the Barnett shale."

Shale plays like the Barnett are the other wild card that could affect the industry's pending pullback. The Barnett, in and around Houston, fostered technical developments that opened up shale gas drilling across the U.S. Unlike conventional wells, shale wells start with explosive production, then quickly taper to extremely low output.

"The more of those you drill, the quicker that gas surplus builds," said HIS' Stack.

But as overall drilling backs off now, will the industry see a rapid production decline?

"It's not that clear," Randy Ollenberger of BMY Capital Markets wrote in an e-mail response.

The economics of shale and other unconventional fields are now generally better than conventional plays. That means "all of the growth is coming from Barnett and East Texas," he said, and "that could be the last to back off."

Requiem for a moratorium
Washington Post, October 20, 2008; http://www.washingtonpost.com/wp-dyn/content/article/2008/10/23/AR2008102300375.html

Grist.org

The 110th Congress achieved some notable victories for the environmental community. The Democratic majorities secured the first major increase in automobile fuel-economy standards in nearly three decades, along with tougher efficiency rules for household appliances. They extended tax credits for solar and other renewable energy sources. Serious discussion of climate legislation got underway in the Senate, while the House approved an energy bill with the first national renewable electricity standard (though the Senate didn't pass it). Democratic leaders set an example for the nation with a plan to green the U.S. Capitol.

But for many enviros, the legacy of the 110th Congress will be its failure to renew the 27-year-old moratorium on drilling for oil and gas on the outer continental shelf (OCS) -- one of the largest concessions on environmental protection in decades.

Republican leaders and former elected officials like Newt Gingrich spent the summer of 2008 demanding that the country "drill here, drill now." In the waning hours of Congress, they finally got at least a partial win on the issue: The moratorium expired on Oct. 1, opening more than 600 million acres of coastal waters to leasing and potentially allowing oil and gas drilling as close as three miles to shore. The expiration clearly demonstrated the persistent power of the fossil-fuel lobby in Washington.

"This is the biggest reversal of conservation and protection in the history of this country," said Richard Charter, a government relations consultant for Defenders of Wildlife Action Fund and a long-time opponent of offshore drilling. "This could be just the first step to losing what people in this country who are now alive took for granted as they were growing up ... If anything is going to be fair game to be destroyed in the quest for oil, then this is probably not the end. This is probably just the first step."

For the moratorium on offshore drilling to expire under a Democratic Congress might strike some observers as ironic, given the party's longtime ties to various environmental groups. But that would overlook the fact that the moratorium has for decades had backing from both sides of the aisle, with particularly vocal support from Republican leaders in key states like Florida and California.

"The moratorium has always been a bipartisan product, and could not have survived as many years as it did without Republican support," Charter said.

But that all changed when the price of oil went soaring.

"It's safe to say the whole country went crazy when gas hit $4 a gallon," said Athan Manuel, Sierra Club public lands program director. "At that point you saw people across the country calling for immediate action. Congress tried to do everything they could on energy -- do more efficiency, do more renewables, do more nukes, and do more drilling. Whether it was the right solution or not, people just started calling for action, and you saw people like Newt Gingrich and the Republican leadership really exploiting that."

The nearly three-decades-old bipartisan coalition built to support the moratorium was simply no match for oil selling during the peak summer months at well over $100 a barrel, say enviros.

"People vote with their right foot, on the gas pedal," Charter said. "There is no more powerful lobbying tool, in the environmental movement or anywhere else, than that little dial spinning around on a gas pump."

A captive audience

Representatives of the oil industry, who have long campaigned for the end of the OCS moratorium, confirmed that it was the high price of gasoline this year that helped them finally get their wish.

"I think that people were listening this summer when they saw gas prices going higher, so that had a lot to do with the public sentiment," said Denise McCourt, industry relations director for the American Petroleum Institute. "We're pleased to see that, because people are recognizing that we have some tremendous opportunities out here and that Congress needed to act."

McCourt said API ramped up its advertising and outreach campaigns on the issue, in part because the high price of gasoline had more people tuned in on the issue.

Lee Fuller, vice president of government relations for the Independent Petroleum Association of America, said national security concerns also helped change public opinion on drilling, but high prices were the main factor.

"We were looking at the impacts of the price of oil moving U.S. money into the hands of foreign countries, which in many cases weren't that supportive of the United States," said Fuller -- echoing a point made by both Barack Obama and John McCain during the presidential campaign. But Fuller said it was the spike in oil prices that "drove energy into the front line debate" for much of the summer.

Even though new offshore drilling wouldn't lower prices for at least a decade, according to everyone from the Energy Information Administration to API, the oil industry and its friends in Congress were able to convince the American public otherwise. Through expanded marketing tactics and sheer repetition, they drove home the notion that drilling could be done in a "safe, environmentally friendly" way, and gave the impression that it would only be "deep-sea" drilling -- far from the public's favorite beaches.

In the first six months of 2008, Big Oil spent $289.6 million on political contributions, lobbying expenditures, and paid media, according to a recent report[PDF] from the campaign finance watchdog group Public Campaign Action Fund. The Center for Responsive Politics reports that Gingrich's 527 group, American Solutions for Winning the Future, has on its own spent $15.6 million this year, most of it on pushing the "drill here, drill now" message.

"Big Oil has just been able to wage a major effort to convince both the public and decision makers that there's merit to drilling," said Margie Alt, executive director of Environment America.

The P.R. effort had an impact, as the summer saw growing public demand for drilling, which in turn put pressure on lawmakers to do something. The demand for drilling came despite the fact that, according to other survey data, there is far more public support for investing in renewable energy sources as a way to bring down energy prices.

And as poll numbers in favor of drilling crept up, so did congressional support, even among lawmakers who recognize that it isn't a real solution to energy concerns.

"I don't think the [congressional] leadership was as strong as they should have been," said Corry Westbrook, legislative director for the National Wildlife Federation. "I don't think they were good about messaging and getting out to the public that there is a better solution than drilling."

A long time coming

The demise of the moratorium on offshore drilling didn't happen suddenly. It has had opponents throughout its history, and the legislation to support its continuation, which usually came as part of the regular Interior Department spending legislation, was seeing its support in the key appropriations committees slide year after year.

But it was John McCain who kick-started this year's big political debate over the issue. For years he had supported the federal OCS drilling ban, but in June he reversed course and called for lifting it. President Bush quickly jumped on board, calling on Congress to lift its ban and then repealing the executive ban, which had originally been imposed by his father in 1990. In order for drilling to proceed, both the congressional and executive bans needed to be ended.

While the drilling debate was still raging in Congress, the Bush administration started putting together a new five-year plan that would allow OCS lease sales as soon as 2010.

"Areas that were considered too expensive to develop a year ago are no longer necessarily out of reach based on improvements to technology and safety," Interior Secretary Dirk Kempthorne said in July. "The American people and [President Bush] want action and this initiative can accelerate an offshore exploration and development program that can increase production from additional domestic energy resources."

Though Kempthorne won't be able to complete the new plan before the end of this administration, he will have set in motion a plan that the next president could carry out.

"It just happened to take almost to the end of the administration, but you know that the White House will get it as far down the runway as they can before they leave," said Charter.

Green around the gills?

Lawmakers and groups committed to preserving protections for the outer continental shelf were also thwarted by the enormity of the financial crisis that confronted Congress in its final weeks. The House managed to pass an energy bill that included at least some protections for the OCS, but with all attention turned to the Wall Street bailout plan, the protections were never considered in the Senate. Many assume that the Senate wouldn't have been able to pass them anyway, and Bush made clear he would veto any bill that included them.

But some believe the financial crisis could have given the Democratic leadership some bargaining power to force the president's hand on a measure to protect the coasts.

"[The Bush administration] came, hat in hand, asking for the $700 billion bailout, so you would presume that Democrats would have some leverage," said Charter. "I think the reason that the Democrats blinked in this giant game of cataclysmic chicken ... is they didn't want to further complicate the Bush economic crisis."

Others think the financial crisis simply sucked all the air out of the room in the final weeks of Congress. "With everything else going on in Congress, and with Big Oil putting all their weight behind this idea that we need to drill more, the environmental perspective just wasn't able to prevail," said Alt.

Some in Congress fault environmental groups for not doing enough to help keep the moratorium in place. Rep. George Miller (D-Calif.), speaking at a public forum on "The Politics of Green" at the Democratic National Convention in August, accused the environmental community of being "entirely absent" during this summer's debate over drilling. "Nobody heard from them in their district office, nobody heard from them during that discussion," said Miller.

Environmentalists, of course, buck at that suggestion, pointing to a litany of advertisements, email campaigns, phone calls, op-eds, and press releases from the summer.

Sierra Club's Manuel is a bit sick of people asking where enviros were during the heated drilling debate. "I have answered that question millions of times on the Hill," said. "They asked us why we were so silent. We weren't. We were yelling like crazy, but we weren't yelling as loud as the other guys because they had a bigger bullhorn than we did."

But even if they were drowned out by the oil industry and their allies in Congress, Manuel acknowledged that some things could have been done better this year. He said there is a definite need to reactivate the long-standing coalitions between enviros, tourism organizations, and the fishing industry that have previously stepped up to protect the coasts.

"We just need to do a better job of making those voices louder, because those voices were definitely crowded out," he said. "We need to get those guys reactivated again. That's always been an important part of this fight, and we didn't do as good of a job activating that crowd."

NWF's Westbrook also noted that while green groups could have improved their messaging on the OCS issue, they were in fact very active on Capitol Hill over the summer, focusing a lot of their efforts on the Lieberman-Warner Climate Security Act and the seemingly never-ending battle to extend the renewable-energy tax credits.

"Most of the community was very focused on the Climate Security Act, and that is completely tied to investments in more fuel-efficient cars and more fuel-efficient buildings, and getting global warming and carbon dioxide gases down," said Westbrook. But still, she added, "I wish that we had articulated our message and our concerns more clearly to the public about the fact that [drilling] is just a short-term, and not a real, solution."

The victors aren't feeling victorious

While the outcome this year was far from ideal for environmentalists, it wasn't exactly what Big Oil was asking for either.

The industry wanted a bill explicitly endorsing offshore drilling (like the "All of the Above" bill from the House Republicans), but all it got was a passive expiration of the ban. Drilling advocates wanted a portion of the revenues from leasing to be given to states, in order to give them more incentive to allow drilling off their coasts. They wanted to open up more areas of the Gulf Coast (which are currently protected by legislation separate from the OCS moratorium), and they wanted to include language to significantly limit lawsuits challenging new leasing. Sen. Jim DeMint (R-S.C.) tried to slip these provisions into other legislation in the final hours of Congress, to no avail.

So Oct. 1, though it was dubbed Energy Freedom Day by the pro-drilling contingent, did not represent a dramatic change in energy policy. Instead, it marked a draw on offshore drilling. Drilling supporters will keep pressing their agenda next year, and opponents will push to have the ban reinstated.

"While today we celebrate the offshore drilling ban being lifted, remember there is still a lot more work to be done to move America toward energy independence," said a post on the American Solutions blog on Oct. 1.

API's McCourt said the industry needs more assurance that Congress won't reinstate the moratorium before it can move forward on plans to drill offshore.

"There's talk about what's going to happen in 2009, so of course nobody can make any sort of commitment to look for more resources, even to try to look for more resources, unless there's some kind of long-term assurance from Congress that this moratorium will remain lifted," she said. "I think we all have to see how this all plays out in 2009."

Said Charter, "The outcome this year is not an outcome. I think that leaves the issue unresolved and ripe for resolution next year. Even states that were relatively amenable to drilling, this outcome is not something they're going to want to leave to stand."

And while some coastal states are more favorable to drilling than others, many are outright opposed, and state legislators, governors, and congressional representatives in those states will use every tool at their disposal to fight it.

Rep. Ed Markey (D-Mass.) has already introduced legislation[PDF] to protect Georges Bank, an area off the Massachusetts coast that may be targeted for new drilling. Other anti-drilling lawmakers are likely to follow suit and try to protect their states' coastlines.

Now what?

It's pretty much inevitable that the offshore drilling debate will resurface early in 2009.

"Congress will revisit the OCS issue in March with a new president," Drew Hammill, spokesperson for House Speaker Nancy Pelosi (D-Calif.), told Grist. March is when the continuing resolution that's currently funding the government is set to expire.

"Democrats know that the Republican 'drill only' policy will not make our country energy independent," Hammill said. "The speaker will continue to promote comprehensive energy policies that create green jobs, protect our environment, and make our nation more secure."

But if environmental champions in the House and Senate are to press aggressively for a renewal of the ban or for other offshore protections, they'll need to hear stronger support from greens, congressional insiders say. "Congress is going to need a push come March," said one Democratic aide. "Democrats have lots of great ideas, but they weren't being heard among the 'drill here, drill now,' 'drill, baby, drill.'"

Enviros say they recognize they'll need to put out a strong message to both the public and politicians on energy issues -- not just lobbying against drilling, but lobbying for better alternatives. "We've got to engage the public on our positive message early on in the process," said Manuel. "Probably the most important thing is to go out and sell the public on what we are for -- economy, efficiency, clean energy solutions."

But the real determining factor on offshore drilling may be the nation's choice of its next president. John McCain now wholeheartedly supports drilling on the OCS. Barack Obama maintained his opposition for much of the summer, but in August said he'd be "willing to consider" offshore drilling if it could help get a comprehensive and otherwise good energy bill passed. Still, Obama repeatedly stresses that the nation can't drill its way out of its energy problems.

All of the big green groups that endorse presidential candidates have endorsed Obama: Sierra Club, the League of Conservation Voters, Friends of the Earth Action, Environment America, and Defenders of Wildlife Action Fund.

But if Obama doesn't win, then what?

"Maybe [McCain will] flip-flop back to where he was before when he understood that drilling wasn't the solution," Manuel said. "But it's hard to assume that would happen with Sarah Palin as his vice president ... That would be a terrible step backward for the country on energy policy if it was McCain and Palin in the White House."

Scandal-Plagued Oil Agency Revamping Itself
Washington Post, October 20, 2008;
http://voices.washingtonpost.com/washingtonpostinvestigations/2008/10/scandal-plagued_oil_agency_rev.html

by Derek Kravitz

The federal office in charge of collecting billions of dollars per year in oil and natural gas royalties is in the midst of a massive reorganization after a highly-publicized sex-and-gift scandal this summer, officials said today.

A two-year investigation by Department of Interior's inspector general, Earl E. Devaney, into the oil-royalties program surfaced last month, finding a "culture of substance abuse and promiscuity" where officials in Colorado attended parties with oil and gas marketers, accepted gifts including ski trips, sports tickets and golf outings and steered contracts to favored clients. Two retired employees-turned-consultants pleaded guilty to federal conflict-of-interest charges and await sentencing.

Since then, several of the employees identified in the reports have been placed on administrative leave or transferred out of the Minerals Management Service's royalty-in-kind program, while officials contemplate a "full range" of options, including firing, said Gregory J. Gould, the newly-promoted associate director of the government's Minerals Revenue Management agency.

A week after the reports were made public, at a Sept. 19 town-hall meeting among oil agency employees in Denver, officials pledged they would take a "hard look" at the royalty-in-kind program and promised its first management overhaul since 2000. Employees appeared "upset and concerned" about media reports regarding the agency and asked that the "proper controls" be instituted, Gould said.

Last week, Gould wrote to staffers, saying the royalty-in-kind program would now be overseen by the department's asset management program, incorporating the 10-year-old royalties program into other operations so it's not "just hanging out to the side."

"The program was started several years ago as a pilot and it only recently became fully functional, so now we want to better align with other parts of our organzation," Goud said in an interview.

The Minerals Management Service's royalty-in-kind program allows energy companies to pay the government in oil and gas, rather than cash. Last year, it raked in more than $4 billion in royalties.

Gould said that while the profitable division would be "streamlined," positions would not be cut. He said officials are proposing adding more auditors to oversee the program.

"It was unfortunate that a small group of people had to take the focus away from the 99 percent of employees who do the right thing every day," Gould said.

Gould said congressional staffers and Interior Department officials would be briefed on the changes in the coming months.

The move immediately sparked more questions from watchdog groups, who have lobbied for an outside agency to perform compliance reviews and audits of the troubled oil division.

"There needs to be an independent body looking at the agency because it shouldn't be overseeing itself," said Mandy Smithberger, a fellow with the Washington-based watchdog group Project on Government Oversight. "There's an incentive for MMS to actually lease these properties and there needs to be someone independent to really audit these things properly."

Auditors have frequently complained about inaccurate and incomplete accounting reports from the oil-royalty agency, saying that it has been difficult to gauge whether the program saves taxpayers money.

Devaney, the Interior Department's inspector general, told the House Natural Resources Committee in September that his investigators found it "impossible" to determine whether any money was misappropriated by the agency because accounting records were too disorganized to be audited.

Offshore Wind May Power the Future
Scientific American, October 20, 2008; http://www.sciam.com/article.cfm?id=offshore-wind-may-power-the-future

Not only are offshore winds stronger but landlubbers have fewer objections to turbines almost invisible from the coast

By Emily Waltz

The waters of the Jersey Shore may soon become home to the nation's first deepwater wind turbines. New Jersey officials recently announced the state would help fund an initiative by Garden State Offshore Energy to build a 350-megawatt wind farm 16 miles (26 kilometers) offshore. The state wants by 2020 many more of these parks, at least 3,000 megawatts worth, or about 13 percent of the state's total electricity needs.

"This is probably the first of many ambitious goals to be set by states," says Greg Watson, a senior advisor on clean energy technology to the governor of Massachusetts. "Three thousand megawatts is significant. With that you're able to offset or even prevent fossil fuel plants from being built."

The federal government is about to open up to wind energy development vast swaths of deep ocean waters, and states and wind park developers are vying to be the first to seize the new frontier. Wind parks in these waters can generate more energy than nearshore and onshore sites, they don't ruin seascape views, and they don't interfere as much with other ocean activities.

New Jersey's plan was prompted, in part, by new federal rules that will greatly expand the territory in which developers can build offshore wind parks. Until now, such projects were only allowed in shallow state waters—those within 3.5 miles (5.6 kilometers) of shore. The new rules would allow them in federal waters, known as the outer continental shelf, which extend to the edge of U.S. territory about 230 miles (200 nautical miles, or 370 kilometers) out. These are the same waters where the hotly debated oil and gas drilling has been proposed, but the sites are unlikely to overlap, say wind developers.

The U.S. Department of the Interior's Minerals Management Service, the federal agency with jurisdiction, plans to finalize the rules by the end of the year. The agency says it will lease plots of the shelf to developers of wind parks and other renewable energy projects, such as ocean current and wave-harvesting technologies. States are chipping in on wind park development projects in the hope that the energy from these complexes will feed into state grids and help meet renewable energy requirements.

Some groups say the rules leave too many barriers for developers to overcome. "Are these waters really open?" asks Sean O'Neill, founder of the Ocean Renewable Energy Coalition. O'Neill says the leases may be prohibitively expensive and the environmental review process too extensive.

Which way the wind blows
But opening up the shelf may be the only way a viable offshore wind industry can develop in this country. Wind projects in state waters are visible from shore and can interfere with shipping routes and recreation. Turbines often have to be smaller and fewer to minimize these impacts, leading to less profitable projects. And prior to the new federal rules, no one knew who was in charge.

These obstacles have delayed, and in some cases nixed, many projects—and so far, not a single offshore wind turbine is operating in the U.S. Organizers of Cape Wind, an offshore wind park to be built more than five miles (eight kilometers) from Cape Cod, Mass., have been battling public opposition and regulatory hurdles for more than seven years.

Leasing the outer continental shelf may solve some of these problems and open a tremendous energy resource. Researchers at the National Renewable Energy Laboratory (NREL) in Golden, Colo., estimate that the wind in this territory could generate nearly 1000 gigawatts—a little more than the current U.S. electrical capacity.

The figure is enticing because nearly 80 percent of the population lives in coastal states. In some of the most densely populated areas, particularly in the Northeast, there is not enough space for large onshore wind farms. Offshore wind parks can get much closer to some of these coastal cities without having to run long transmission lines over rocky terrain and through urban areas. "I think a lot of people would like to bring the energy from wind farms in the Midwest to the cities in the east, but those links aren't easy to make," says Walter Musial, an engineer at NREL.

Europe has far surpassed the U.S. in offshore wind with more than two dozen wind parks in its waters. But nearly all are built within nine miles (14 kilometers) from coastlines—a distance still visible from shore—and in depths less than 60 feet (18 meters). Researchers must tackle some turbine design challenges before wind parks can move into deeper waters.

Building for depth
A common design for shallow depths is a simple pole driven into the seafloor, called a monopile. The deeper the water, however, the longer and more wobbly the pole. Beyond 65—possibly 100—feet (20 to 30 meters) deep, monopiles are no longer suitable. "At some depth you have to switch technologies," Musial says.

Researchers are experimenting with new designs such as underwater tripods and lattice structures called jackets, which provide extra support. Engineers for the Beatrice Wind Farm in the North Sea near Scotland are leading the way with two turbines in water 138 feet (42 meters) deep and more than 15 miles (24 kilometers) from shore. German developer Alpha Ventus plans to build in the next few months a dozen turbines with both tripod and jacket technologies.

Engineers say these designs could hold up in depths of as much as 200 feet (60 meters). To go any deeper, the best option is likely a floating structure similar to that used by the oil industry. Wires would anchor the platforms to the seabed. But unlike an oil platform, the floating wind turbine would have to better restrain the sea's pitch, roll and heaving motions. Commercial development of these structures is likely a decade away, says Musial, although some private developers in Europe say they are working on prototypes.

The depths of the U.S. outer continental shelf vary: Off of California's coast, for example, it gets deep fairly quickly compared with the east coast shelf. To get to a point where turbines are barely visible, wind parks must be built at least 14 or so miles (22.5 kilometers) from shore, says George Hagerman, a marine renewable energy researcher at Virginia Polytechnic Institute.

Offshore costs can be prohibitive, particularly without tax credits and incentives. Turbines and transmission lines are more expensive. Boats have to make long trips to and from the wind park. And some of the equipment to build in deep waters doesn't yet exist. In Europe, an offshore wind park costs nearly twice as much per megawatt as an onshore wind park, according to the European Wind Energy Association in Brussels. The question, says Paolo Berrino at the association, is whether greater wind generation efficiency offshore will outweigh the additional costs.

"Going into deeper water is not something we're comfortable doing yet," says Jim Lanard a spokesperson for Bluewater Wind, a company that has proposed a wind park 13.2 miles (21.2 kilometers) from the Delaware shore that will employ monopiles to depths of about 75 feet (23 meters). "The first offshore wind parks cannot fail because it will send a signal to the industry and the government that [the] U.S. offshore wind industry is not ready for prime time. So we are taking a conservative approach with technologies proven in Europe."

Officials may OK more uses for Coastal Impact funding
Press-Register, October 20, 2008; http://www.al.com/news/press-register/metro.ssf?/base/news/1224494165274420.xml&coll=3

By CRAIG MYERS

BAY MINETTE - Alabama, Mobile and Baldwin officials said they're more hopeful now that millions in Coastal Impact Assistance Program funds can be used for recreational and water-access projects, but still aren't sure how much or when.

Last year, nearly $51 million was awarded to the state and its two coastal counties as part of the Interior Department's program meant to offset the impact of oil and natural gas drilling. But no money has yet been released.

In recent months, the process became bogged down in a debate over the Interior Department's in terpretation of "authorized use" of the money that excluded "recreational, public access and economic development projects."

That put portions of the Alabama spending plan in limbo, including the state Department of Conservation's proposal to use $8 million to help fund the reconstruction of the Gulf State Park Pier, which was destroyed by Hurricane Ivan in 2004.

Pier work is well under way, but the additional money is to reimburse the cost of plans that went beyond what Federal Emergency Management Agency funds and insurance could pay for, state officials said.

Also questioned were Mobile County's plan to spend $2 million for Big Creek Lake public access improvements and Baldwin County's $1 million plan for public accesses at Hastie Lake and $2 million for boating access on Perdido Bay.

"Anything we had in there that was public access, or that they thought was recreation, all those ? for Mobile, Baldwin and the state ? had issues," Julie Batchelor, Baldwin County's senior natural resource planner and representative on the effort, told county commissioners last week.

But she said federal officials seem to have given some ground on the issue.

"They are saying public access and public recreation could be potential uses and may be considered," she said.

Eileen Angelico, spokeswoman for Minerals Management Service, confirmed that the agency is taking a new approach to authorized uses.

"The Coastal Impact Assistance Program policy and guidance has been modified to expand acceptable project categories under authorized use No. 1," she said in a statement. "Such projects may include public access to the natural and coastal and marine environment (and) public recreation in the marine and coastal environment."

Batchelor said she and her counterparts in Mobile and at the state level will get official word in coming months on what projects have been approved. Remaining conflicts will be resolved by a special review board that will have the final say, she said, and at some point the uncontested projects could move forward.

"They will send us comments on the plan we have turned in now. We'll be able to update that and send it back to them and then whatever they send us back will kind of be the final say. They'll say 'these three projects need to come out of your plan and we'll approve the rest of it,'" she said. "If we don't pull out the projects they say they aren't going to approve, we don't get our plan approved."

Will Brantley, natural resource manager of state lands for the state Conservation Department, was cautiously optimistic.

"Apparently MMS has reviewed potential policy changes and we've heard they are going to update the guidance document," he said. "I'll let them interpret it. ... It's a little hard to know what it means."

In May, Gov. Bob Riley signed a letter along with the governors of Mississippi, Louisiana and Texas challenging the "authorized use" interpretation.

Despite the apparent progress, Batchelor told commissioners there's still no end in sight to the approval process.

"So realistically, when do we expect to see a check? This is like nailing Jell-O to the wall," said Commissioner Wayne Gruenloh. "Will it be while I'm still in office?"

"It won't be when any of us are still alive," Batchelor joked.

As Fuel Prices Fall, Will Push For Alternatives Lose Steam?
Washington Post, October 20, 2008; http://www.washingtonpost.com/wp-dyn/content/article/2008/10/19/AR2008101902073.html?hpid=topnews

By Steven Mufson

Just four months ago, a conference here on electric cars drew four times as many people as expected. District fire marshals ordered some of the crowd to leave, and the atmosphere was more like that of a rock concert than an energy conference. A brief film depicted an electric car owner driving off with a beautiful woman to the strains of "The Power of Love" while her original companion struggles to pay for gasoline. The audience cheered.

One discordant note in the series of enthusiastic speeches came from Bill Reinert, one of the Toyota Prius designers. He cautioned that designing and ramping up production of a new car takes five years.

"If oil goes down to $60 or $70 a barrel and gasoline gets back to $2.50 a gallon, and that very possibly could happen," he said, "will that demand stay the same or will we shift back up?"

It didn't take five years to hit those numbers. One type of oil shock has given way to another. Even more swiftly than the price of oil rose, it has tumbled to the range that seemed far-fetched when Reinert spoke and oil was more than $130 a barrel. Now that drop threatens a wide variety of game-changing plans to find alternatives to oil or ways to drastically reduce U.S. consumption.

"Declining oil prices can give us an artificial and temporary sense that reducing oil consumption and energy consumption is an issue we can put off," said Greg Kats, a managing director of Good Energies, a multibillion-dollar venture capital firm that invests in global clean energy.

The credit crisis is compounding that threat by making it more difficult to finance capital-intensive projects, whether they are new auto assembly lines or solar panels or wind turbines. General Motors has been touting the Chevy Volt as the first mass-marketed, plug-in hybrid vehicle. GM, which has been holding merger talks with Chrysler, believes the project will help justify federal financing. It hopes to deliver the car by the end of 2010.

Tesla Motors, a maker of a handful of pricey electric sports cars, had planned to unveil a cheaper sedan next year. But on Thursday it delayed the new model because of trouble lining up financing. It also said it would close two offices and has replaced its chief executive.

The uncertain future of electric cars points to a sticky aspect of the global oil equation. The price of oil can change rapidly, but responses that would cut petroleum use take time. As oil prices climbed, major automakers including GM, Mitsubishi, Renault-Nissan and Toyota moved ahead with plans to produce plug-in vehicles. But the first of those cars won't be ready for a couple of years. What the price of oil will be then, and what consumers' appetite for plug-in cars will be then, is anybody's guess.

Focusing on Efficiency

Doing something about the amount of gasoline Americans use is essential to defusing future oil shocks. The American motorist is among the most profligate in the world. More than one out of every nine barrels of oil produced worldwide ends up in the gas tanks of cars in the United States. The amount of petroleum burned by U.S. motorists exceeds the entire crude oil output of Saudi Arabia, and that has propped up demand -- and prices.

Yet U.S. cars are among the least fuel efficient in the world. "The U.S. dependence on oil imports is based on waste, not on needs," said Paolo Scaroni, chief executive of Italian oil giant Eni.

Electric cars aren't the only answer. More efficient cars, whether better combustion engines or hybrids like the Prius, may be a cheaper way to achieve big fuel savings.

Some firms are creating substitute fuels such as ethanol derived from corn or diesel derived from algae. Biofuel players range from the oil majors, such as BP and Royal Dutch Shell, to ethanol giants VeraSun Energy and Poet, to tiny firms like Solarzyme, which started in its founders' garage five years ago and is now testing an algae catalyst in a large commercial vat. Many firms are working on cellulosic ethanol, derived from organic materials such as grasses or wood chips, but those factories are still in the pilot or demonstration stage.

Almost all of those alternatives rely on federal subsidies or are counting on lower costs as technology evolves. The cheaper oil gets, the bigger those technological improvements need to be to compete.

The electric car has the potential for making a bigger impact than alternative fuels because it would be powered by the electricity grid, which relies on a mix of coal, nuclear, natural gas and renewable energy sources. Moreover, recharging an electric car is much cheaper than refueling a gasoline car.

Its proponents say the electric car has transformative potential that other transportation alternatives lack. "We want customers to see the Volt as the game changer it is, not only for the technology, but also for business, and maybe more importantly for the way the world drives," said Troy A. Clarke, president of GM North America.

"Reducing our oil dependency meaningfully in the U.S., under any scenario, requires radically improving the efficiency of our vehicles," says Saurin D. Shah, a vice president at investment firm Neuberger Berman who expects an explosion of hybrid and plug-in cars by 2030. He predicts hybrid and electric cars will replace conventional vehicles as swiftly as electric locomotives replaced steam-driven ones.

But because their batteries are expensive, plug-in cars are going to cost as much as $8,000 more than conventional gasoline cars. The lower the price of gasoline, the longer it is going to take for fuel savings to make up for the car purchase premium. That is one reason why Democratic presidential candidate Sen. Barack Obama (Ill.) has proposed a $7,000 tax credit for consumers who buy electric cars. Republican presidential hopeful Sen. John McCain (Ariz.) favors a $5,000 tax credit for cars with ultra-low emissions.

A Long Road to Transition

More than a decade ago, GM killed an electric car called the EV1; the company said motorists weren't interested, but many analysts said a hidebound GM lacked interest. The car ended up as an expensive public-relations debacle. It didn't help that oil prices at the time had collapsed.

But even if oil prices are high, there are bumps in the road to a plug-in automobile future.

If large numbers of electric cars are plugged in at the wrong time of day, they could strain utility capacity. "Today, our electric grid cannot support massive quantities of plug-in hybrid vehicles very well," said Peter Darbee, chief executive of Pacific Gas and Electric. Depending on a utility's fuel mix, plug-in vehicles could boost particulates, or soot. And only half of Americans have electrical outlets where they park their cars at night, according to a major auto firm executive.

Electric vehicles might not solve all strategic issues, either. James Woolsey, former head of the CIA, promotes electric cars because, he says, "We can, we should, and we must, as a major national priority . . . absolutely, totally, completely destroy oil's monopoly" to break the U.S. dependence on foreign oil.

But Irving Mintzer, an energy expert, notes that most electric vehicle motors contain rare elements such as neodymium, and about 95 percent of the world's supply currently comes from China. The United States might swap one form of dependence for another, he said.

And then there is the question of consumer tastes and habits.

Alan L. Madian, director of consulting firm LECG, notes that it takes time for motorists to get used to new types of cars; it has taken a decade for Toyota to sell 1 million Priuses, less than 1 percent of the cars on the road. Madian said that even with "heroic" assumptions about the sales of new electric cars, they would make up 50 percent of new vehicles by 2030 and only 8 percent of cars on the road.

"These transitions take a long time," he said.

Financing Challenges

Ultimately the future of all alternatives to oil comes down to money. That's why one of the most intriguing promoters of electric cars isn't an automobile person at all.

Shai Agassi, once a contender for the chief executive slot at international software giant SAP, says that the right business model will put electric cars in the fast lane.

He wants to make owning an automobile more like owning a cellphone. In exchange for signing up for refueling service, he would give you an electric car for free. You could plug it in at public parking spaces or at home. You'd pay for electricity with a card, like a phone calling card. During long trips, motorists could pull into recharging stations resembling car washes and swap a battery running low on juice for one fully charged in just a bit more time than it takes to fill a tank with gasoline and check the oil.

Agassi's plan will get a test drive in Israel and Denmark, whose governments have pledged support. Agassi's Silicon Valley-based firm Project Better Place has raised $200 million venture capital from the likes of Morgan Stanley, VantagePoint Venture Partners, Wolfensohn & Co. and oil refiner Israel Corp. Renault-Nissan chief executive Carlos Ghosn has promised to deliver tens of thousands of electric cars by 2011.

"We started with the following question: How do you run an entire country without oil?" said Agassi. The cost of installing half a million recharging stands and 120 battery swap stations would come to $5 billion, he said, considerably less than Israel's annual bill for oil imports -- at least earlier this year.

Falling oil prices, however, make Agassi's plan a tougher sell. With gasoline at $7 a gallon, he can recover the cost of the car he gives away through his recharging stations. The price at the pump, combined with heavy taxes, was higher than that in Israel and most of Europe this summer. But this week, prices fell even in countries with heavy fuel taxes; in Britain, prices fell as low as $5.40 a gallon.

Keeping electric car projects going could be even tougher for the big automakers in the United States, where fuel taxes are much smaller.

"If you have to spend X dollars and your profitability has just gone into the black hole and you're having issues getting financing and just keeping the lights on, are you going to spend a lot of money on a high-risk product?" asked analyst Shah. "Probably not."
