Week in News: October 27-November 2, 2008

Natural gas presents risks to environment
Hilton Head Island Packet, November 2, 2008; http://www.islandpacket.com/opinion/letters/story/655824.html

A slogan, or the solution? THE OIL MARKET WILL NOT CHANGE
The Free Lance Star, November 2, 2008;
http://fredericksburg.com/News/FLS/2008/112008/11022008/421075/index_html

Alaska at the front
Petroleum News, November 1, 2008; http://www.petroleumnews.com/pntruncate/550711773.shtml

GAO suggests more third-party verification of MMS RIK production
Oil and Gas Journal, October 31, 2008; http://www.ogj.com/display_article/344233/7/ONART/none/GenIn/1/GAO-suggests-more-third-party-verification-of-MMS-RIK-production/

Ms. Palin's Same Old, Same Old
NYT, October 31, 2008; http://www.nytimes.com/2008/10/31/opinion/31fri2.html?_r=1&oref=slogin

Campaigns push energy issues to the forefront
Boston Globe, October 30, 2008;
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High crude prices drive Exxon to another record profit
Greenwire, October 30, 2008; http://www.eenews.net/Greenwire/2008/10/30/4

Third Oil Royalty Office Official Indicted
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Benefits of royalty-in-kind program unclear – GAO
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McCain says states deserve more offshore oil money
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Rigged: Credit Crunch Whacks Offshore Oil, Too
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Reuters, October 28, 2008; http://www.reuters.com/article/politicsNews/idUSTRE49R5MK20081028

The Election Choice: Energy
WSJ, October 28, 2008; http://online.wsj.com/article/SB122515084360974157.html?mod=googlenews_wsj

Calif. regulators deal blow to wave project
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Reversing ban on Great Lakes drilling unlikely
Toledo Blade, October 27, 2008; http://toledoblade.com/apps/pbcs.dll/article?AID=/20081026/NEWS16/810260316

Natural gas presents risks to environment
Hilton Head Island Packet, November 2, 2008; http://www.islandpacket.com/opinion/letters/story/655824.html

Colin R. Hagan

An Oct. 12 Packet article offered a fair comparison of the substantial risks and minimal opportunities associated with drilling off our coast. But it featured some misleading information, specifically, the following sentence: "When the legislative dust ... settles, will tourist destinations be facing oil rigs a few miles offshore or the less environmentally risky natural gas drilling operations 50 miles or more offshore?"

Natural gas drilling is not less risky or cleaner to drill. To claim that natural gas drilling is cleaner than oil drilling is disingenuous for two reasons.

First, natural gas drilling rarely occurs independent of oil drilling. According to Johnnie Burton, former director of the Department of Interior's Minerals Management Service, "Natural gas seldom comes totally by itself. It has some liquids with it ... but you do not know that until you drill." It's impossible to know whether a well will yield only gas or oil.

Second, the risks and pollution associated with natural gas and oil drilling are similar. In fact, the processes are nearly the same. Both require toxic chemicals and generate harmful waste, which pollute the ocean and nearby fisheries.

The fact that natural gas often occurs deeper than oil means that you have to drill farther for natural gas. That results in more air pollution and a steady decline in local water quality. When it comes to protecting our coast and the tourism revenue it generates, we can't afford the risks associated with offshore drilling -- whether it's for oil or natural gas.

A slogan, or the solution? THE OIL MARKET WILL NOT CHANGE
The Free Lance Star, November 2, 2008;
http://fredericksburg.com/News/FLS/2008/112008/11022008/421075/index_html

Will drilling on the outer continental shelf yield the oil or low costs that Americans expect? Robert Kaufmann says no.

Robert Kaufmann

BOSTON

--The Republicans' "Drill, baby, drill" is a great slogan. So good that congressional Democrats opened an additional 400 million acres of the outer continental shelf to drilling.

So, now that more area is available, what are we to expect? Not much. Opening the outer continental shelf will not increase U.S. production significantly, dent our reliance on imports, or reduce prices. And if this effort is subsidized by the government, it will hurt our economy.

How much oil will now become available? Before drilling is completed, there is no way to know for sure. The U.S. Geological Survey estimates that the entire outer continental shelf contains about 59 billion barrels of oil. Of that, about 40 billion barrels are located in areas that were open to drilling before the ban was lifted. Opening the entire area would free up an additional 19 billion barrels.

How soon will that oil become available? Fields in the outer continental shelf are far below the seabed in deep water that is far from shore. Consequently, exploration and development will proceed slowly. Even if drilling in the newly opened areas of the outer continental shelf were to start today--it cannot, because leases to drill in the newly opened areas have not been auctioned--the U.S. Department of Energy forecasts that it will take at least five years before any additional quantities of oil are produced. After a decade, the newly opened areas are expected to produce an extra 0.3 million barrels per day.

IS THIS ENOUGH?

How significant is 0.3 million barrels per day? In 2008, the U.S. produced about 5 million barrels per day. So an extra 0.3 million barrels per day may increase U.S. production by about 6 percent in a decade.

Some argue that opening the outer continental shelf will move the U.S. toward self-sufficiency in oil. While any extra production is a step in the right direction, how big a step is opening the outer continental shelf? In 2008, the

United States imported about 9.7 million barrels per day. It is hard to argue that reducing this number by about 3 percent is meaningful. As an aside, I cannot envision any combination of reductions in U.S. consumption and increases in U.S. production--U.S. production has declined by about 50 percent since 1970--that will make the U.S. self-sufficient in oil.

Perhaps opening the outer continental shelf is designed to reduce oil prices. To evaluate this argument, we need to compare 0.3 million barrels per day with global production and consumption, which was about 85 million barrels during each day of 2008. Even if the extra oil from the outer continental shelf were available immediately, there is no mechanism by which 0.3 million barrels changes the balance between the 85 million barrels produced and consumed in a way that has a detectable effect on the global price.

I say "global price" because oil is traded on a world market in which the global supply/demand balance determines a global price for oil, which is modified locally by transportation costs and the quality of the crude oil.

MUSICAL CHAIRS

Thinking more strategically, perhaps oil from the newly opened areas of the outer continental shelf could help the U.S. reduce imports from nations that are either unreliable or politically hostile. Unless the U.S. encounters a scenario in which it obtains oil by military force, as opposed to buying it on a market, the source of U.S. imports is unimportant.

To illustrate, consider a case in which Venezuela's president, Hugo Chávez, stops selling 1.2 million barrels per day to the U.S. (the amount imported in 2008). Doing so would force Venezuela to sell those 1.5 million barrels to other nations, as it has to sell its oil because the government of Venezuela and other oil-producing nations get much of their revenue from oil sales. Venezuela's new customers will have stopped buying oil from some other nation, say Mexico, and now Mexico will have more oil to sell to the U.S. Cutting sales to the U.S. is like a game of musical chairs, in which no chairs are removed when the music stops.

Alternatively, envision a coup in Saudi Arabia in which the new government halts oil exports completely. As Saudi Arabia's former customers attempt to secure new supplies, they will bid up the global price for oil. The U.S. would have to pay the higher price for oil even if the U.S. did not purchase any oil from Saudi Arabia. The global oil market is like one big pool; supply disruption ripples across the entire pool.

IT COSTS WHAT IT COSTS

To drive home the point, suppose the U.S. produced all of its oil domestically when Saudi Arabia halted exports. As oil prices rose on the global market, would U.S. oil producers sell oil to U.S. consumers for one penny less than they could charge foreign consumers? The answer is, no! Even self-sufficiency cannot insulate the U.S. from the vagaries of the world oil market.

Despite these warnings, suppose that the U.S. government tries to speed the arrival of 0.3 million barrels per day or increase the amount by offering tax incentives or subsidies. The economic folly of this approach was starkly illustrated in the early 1980s, when high oil prices and tax incentives caused large amounts of capital to flow to the U.S. oil and gas industry. These flows powered a drilling boom--the number of oil wells drilled in the U.S. doubled between 1975 and 1980--but this boom did not increase U.S. oil production or the industry's contribution to GDP.

In summary, the investment capital was flushed down a "dry hole" and could have been invested more productively in some other sector, such as the U.S. auto industry. And these opportunity costs are the reason why the U.S. trades for oil on a world market: Producing goods and services in exchange for oil is more effective than trying to expand production from a depleted resource base.

Alaska at the front
Petroleum News, November 1, 2008; http://www.petroleumnews.com/pntruncate/550711773.shtml

Shell’s Odum says the state is central to future U.S. energy supplies

Alan Bailey

Alaska is central to the question of where the United States will obtain its future energy resources. And that's critical to the issues of energy security and the need for major new resource development, Marvin Odum, president of Shell Oil Co., told Petroleum News Oct. 23.

"The big picture for me is what does Alaska choose to do with that. Do they choose as a state to develop that area?" Odum said. "… I see this as the bellwether on where we're going on the energy challenge."

Currently, progress on Shell's planned offshore Alaska exploration drilling lies in the hands of the U.S. Court of Appeals for the 9th Circuit.

More than a year after the court placed a temporary injunction on Shell's Beaufort Sea drilling, the court has still not ruled on an appeal by the North Slope Borough, the Alaska Eskimo Whaling Commission and several environmental organizations against the U.S Minerals Management Service's approval of Shell's Beaufort Sea exploration plan. The court heard oral arguments in the case on Dec. 4, 2007.

No time limit

Odum said that there's no time limit for the court to make a decision, no way of telling how long the court will take to do so and no pressure on anyone to make a decision within a certain time period.
"I think that the idea of the courts … deciding on the energy policy for the U.S. is a real problem we should all be concerned about," Odum said.

And meantime the lengthy court injunction is costing a great deal of money and delaying the drilling. To be properly prepared for a drilling season Shell has to hire hundreds of people and ensure that everyone is properly trained, both from a safety and from a skill perspective.

"You can't go into a drilling season without being totally prepared," Odum said. "… And so you have to start spending and developing very early in the year, in anticipation of drilling in the summer. We've done that for two years in a row now and have nothing to show for that investment."

In 2008 Shell held out until June before finally cancelling the summer drilling. In addition to costing money, the cancellation resulted in disappointment when summer work didn't materialize for people. So, in 2009 Shell will likely make a go-no go drilling decision much sooner.

"I can't afford to do that again," Odum said. "I'll have to make it much earlier in the year."

Infrastructure in place

Shell still has the Kulluk floating drilling platform available for work in the Beaufort Sea, as well as the company's oil spill response equipment and the infrastructure for marine mammal monitoring. And, even in the absence of drilling, Shell has conducted some successful offshore operations, including the acquisition of seismic data in the Beaufort and Chukchi Seas.
"The seismic surveys have gone extremely well," Odum said. "We're in our third season now of collecting seismic data."

Odum said that the results of the seismic surveying done so far have proved encouraging but that Shell has not yet decided whether to acquire more seismic data in 2009.

"We're going to process and review the seismic we've just finished collecting … to decide whether we need more. … It could be we have enough," Odum said.

And Odum said that Shell has made progress in its dialogue with North Slope communities over potential impacts of the company's activities on subsistence hunting and concerns about the potential for an offshore oil spill. In the past there have been more than 30 wells drilled in the Beaufort Sea, and Shell drilled four out of the five wells that have been previously drilled in the Chukchi Sea, he said.

"We have listened to the whalers and the communities about what impact the earlier drilling has had … what's been measured and what's presumed," Odum said. "… I'm very confident that we can get to a workable solution."

Shell signed a conflict avoidance agreement with the whalers for each of the last two open water seasons and those agreements defined the terms under which drilling would take place. There are periods around the whale hunt when operations would cease, Odum said.

Internal challenge

And when it comes to environmental issues such as guarding against an oil spill, many of the hardest challenges come from personnel inside Shell — a new generation of employees is especially insistent about environmental safeguards, Odum said. And an offshore oil spill is unthinkable, he said.
“I think it’s the realization from the company point of view as well,” Odum said. “As a company we could never afford an oil spill in the Arctic. … We just can’t afford to have that happen.”

At the same time, Shell sees support of local communities as critical to the success of its operations.

“If the community really doesn’t want you there, it’s not going to work,” Odum said. “It is important for us just as a company and as a sustainable business to get to the point where we’re aligned with the community on what we’re doing up there.”

And that’s a perspective that Shell is starting to apply in the Bristol Bay area, where the company is in the early stages of evaluating possible participation in a future lease sale.

“We’ve been speaking with some of the communities in the Bristol Bay area, because we’re mindful of the fact that in 2011 … there’s a lease sale to happen in Bristol Bay,” Odum said.

However, there need to be several environmental studies to answer questions about whether exploration and development should take place in Bristol Bay, Odum said.

“Will we participate in that process? I suspect, yes. We will,” he said.

Need facts

Odum thinks that, although there are some environmental activists who will always oppose offshore oil drilling, factual answers to scientific questions are the keys to dialogue with many in the environmental community. Factual data can provide answers to questions about what is and isn’t possible, he said.
Shell has been working with scientists on the North Slope to jointly design baseline environmental studies that will continue when Shell operates offshore.

“So, not only can we say that this is what science tells us, but we’ll track it as we’re going through and we’ll see if there is any impact out there,” Odum said. “… If there is any impact we’ll adjust and mitigate.”

Shell already has established mitigation measures for the avoidance of polar bears, which the U.S. Fish and Wildlife Service listed as a threatened species. The measures will ensure that the bears will be spotted and that they will not be interfered with, Odum said.

“For the activities that we’re proposing in the OCS we already have those mitigations in place,” Odum said. “… From the perspective of our activities, the polar bears are protected.”

Shell is also making increasing use of the traditional knowledge of Arctic communities in addressing questions such as the impact of climate change on the wildlife, Odum said.

Revenue sharing

And, in recognition that offshore oil industry activities impact local communities, Shell strongly advocates outer continental shelf oil and gas revenue sharing by the federal government, Odum said. Because the federal government owns the outer continental shelf, the state and local communities are not currently entitled to royalties and taxes from activities that occur more than three nautical miles beyond the Alaska coastline.
Shell supported revenue sharing along the Gulf coast, where revenue sharing is now in place, Odum said.

“It should just be automatic now for Alaska as well,” he said. “It’s not clear to me why it’s not.”

Odum said that Shell favors North America as a place to invest in and that the company is already the largest producer in the Gulf of Mexico. And the fact that the company has invested more than $2 billion in northern Alaska attests to Shell's belief in that region's potential, he said.

But what about the impact on new investments of the recent slide in oil prices?

Shell takes a long-term view of oil pricing and sees market fundamentals as likely to drive prices up again in the future, Odum said. In fact, the bigger worry is that the current lower prices will cause people to forget about those longer term trends, he said.

"I really worry about our inability to stay focused on something that's going to become a bigger problem over time, not a smaller problem," Odum said.

As far as the current turmoil in finance markets is concerned, Shell's main concerns focus on its network of suppliers and partners.

"Shell has a strong balance sheet, of course, but we don't do anything by ourselves," Odum said. "We have suppliers. We have joint venture partners. I think we're waiting to see how all this unfolds."

And Shell remains optimistic about its future in Alaska.

"We think we bring some unique skills to working offshore Alaska, off the North Slope," Odum said. "… We like being somewhat unique in that way. … And so, that's where we're going to focus. We think that resource is big enough and deserves our full focus."

GAO suggests more third-party verification of MMS RIK production
Oil and Gas Journal, October 31, 2008; http://www.ogj.com/display_article/344233/7/ONART/none/GenIn/1/GAO-suggests-more-third-party-verification-of-MMS-RIK-production/

Nick Snow

WASHINGTON, DC, Oct. 31 -- The US Minerals Management Service could improve oversight of its oil and gas royalty-in-kind (RIK) program by verifying more production data through third parties and improving reports of benefits and costs, the Government Accountability Office said on Oct. 29.

"Under the royalty-in-kind program, MMS's oversight of its natural gas production volumes is less robust than its oversight of oil production volumes. As a result, MMS does not have the same level of assurance that it is collecting the gas royalties it is owed," the congressional government watchdog service added in its report.

With oil tendered as an RIK, MMS compares producers' self-reported production data with third-party pipeline meter data from the agency's Offshore Energy and Minerals Management (OEMM) Program, which records volumes flowing through pipeline metering points, it said.

"Using these third-party pipeline statements to verify production volumes reported by companies provides a check against companies' self-reported statements of royalty payments owed to the federal government," GAO observed.

"While analogous data are available from OEMM's gas verification system, MMS does not use these third-party data to verify the company-reported production numbers. In December 2007, the Subcommittee on Royalty Management, a panel appointed by the Secretary of the Interior to examine MMS's royalty program, reported that OEMM was not adequately staffed to conduct [a] sufficient review of data from the gas verification system," the report continued.

A growing share
RIK payments make up a growing share of the oil and gas royalties MMS and the US Bureau of Land Management generate, according to GAO. About 58% of the $9.74 billion in royalty payments received in fiscal 2006 were in-value (cash) while 42% were in-kind, it said. MMS takes the oil or gas it receives as an in-kind royalty and sells it on the open market. The agency has said the program increases revenue, improves efficiency, and shortens the compliance cycle.

Before the mid-1990s, MMS's in-kind efforts were generally limited to its small refiners program under which it took in-kind oil and sold it to small refiners that did not have adequate supplies of their own, according to GAO. The agency in 1995 began to study whether taking oil and gas in kind was in the federal government's best interests and in 1998 began a series of pilot sales. Based on the pilot sales' results, MMS has expanded the program, the report said.

In 2003 GAO recommended that MMS develop a more systematic approach to assessing its RIK program, and said the agency has made progress in developing metrics for assessing the program's performance. The agency said on Sept. 8 in an annual report to Congress on the RIK program that it generated more than $63 million in additional benefits during fiscal 2007.

GAO's new report questioned whether MMS's annual reports to Congress are fully describing the program's performance, and in some cases may be overstating its benefits, however.

Based on assumptions
"For example, MMS's calculation that from fiscal 2004 to 2006 [it] sold royalty oil and gas for $74 million more than it would have received in cash was based on assumptions, not actual sales data, about the prices at which royalty payers would have sold their oil and gas had they sold it on the open market. MMS did not report to Congress that even small changes in these assumptions could result in very different estimates," it said.

The report also said that MMS's calculation that the RIK program cost about $8 million more to administer than the royalty-in-value program over the same period did not include costs such as information technology expenses that the two programs shared, which likely would have changed the results of the agency's administrative cost analysis.

"In addition, these annual reports lack important information on the financial results of individual oil sales that Congress could use to more broadly assess the financial performance of the royalty-in-kind program," GAO said.

It noted that DOI's royalty management programs "have faced increased scrutiny in the last few years, and the [department] is in the process of implementing many recommendations made by GAO, its own inspector general, and its subcommittee on royalty management. While the outcome of Interior's implementation of these recommendations will not be known for some time, we believe additional opportunities exist to enhance the oversight of MMS's royalty-in-kind program."

DOI responds
In a Sept. 18 response attached to the report, C. Stephen Allred, assistant Interior secretary for land and minerals management, said the department agreed with GAO's recommendation to extend the verification system it uses for offshore oil volumes to gas.

He also said that MMS will disclose IT system expenses specifically associated with the RIK program beginning with the fiscal 2008 report to Congress. The agency also is re-evaluating the process by which it calculates the time value of money benefit or early payment savings, including interest rates used and the comparison methodology to in-value payments, he said.

"While MMS calculates revenue performance metrics by individual property for oil and by pipeline for gas, the results are rolled up into reporting categories in order to protect proprietary information regarding royalty-in-kind sales, particularly contractual arrangements with service providers. The MMS believes reporting revenue performance by individual oil property or gas pipeline has the potential to compromise the actual bid prices that MMS receives for the sale of oil or gas and could affect the competitive nature of the sales," Allred continued.

"Proprietary information includes pricing and sales data. The royalty-in-kind sales contracts include confidentiality clauses that neither party will disclose prices received under the contract. Many RIK service agreements for transportation and/or processing also have confidentiality clauses that neither party will disclose the rates charged or the terms of the agreement. Maintaining the confidentiality of proprietary data is essential to continue to contract for royalty-in-kind," he said.

Ms. Palin’s Same Old, Same Old
NYT, October 31, 2008; http://www.nytimes.com/2008/10/31/opinion/31fri2.html?_r=1&oref=slogin

EDITORIAL

The energy speech given this week by Gov. Sarah Palin of Alaska began with great promise and ended in the same old place. The setting was the Xunlight Corporation, which produces solar cells, and for a moment it sounded as if Senator John McCain’s all-but-anointed energy czar was on to something.

Ms. Palin began by making an important point that all politicians, including Senator Barack Obama, should fix in their minds, namely, that the drop in oil prices should not lull the country into complacency or deter it from seeking energy independence. She also declared that the task would require a “clean break” with the failed strategies of the Bush administration and would mean years, even decades, of hard work.

And then, boom, came the same old fix: “Drill here, and drill now.” For all the talk of a clean break, expanding domestic oil-and-gas production remains the centerpiece of Ms. Palin’s strategy — one that greatly exaggerates the benefits of offshore drilling, remains obtusely wedded to older, carbon-intensive energy sources and almost completely ignores the dangers of climate change.

In her speech, Ms. Palin championed more drilling, not only onshore but on the outer continental shelf — an idea flawed on two counts. Because these resources are years from production, they cannot provide quick relief at the pump. And because they are modest to begin with, they can make only a minimal contribution to America’s long-term energy needs. She also repeated the two other main planks of the McCain energy platform: a major expansion in the use of nuclear energy and a major program to develop “clean coal” technology. What Ms. Palin did not say is that from a global warming perspective, coal can never be truly clean unless someone can figure out how to capture and store the greenhouse gases from coal-fired power plants before they reach the atmosphere.

Ms. Palin mentioned greenhouse gas emissions exactly once, meanwhile giving short shrift to the necessary development of new technologies and alternative fuels that could make a real difference.

It is not surprising, of course, that the global warming consequences of relying ever more heavily on fossil fuels like oil and coal do not loom large in Ms. Palin’s thinking. She has repeatedly expressed doubts that humans and their industrial activities have done anything to cause climate change. There was no indication in the speech that she has changed her mind.

Campaigns push energy issues to the forefront
Boston Globe, October 30, 2008;
http://www.boston.com/news/politics/2008/articles/2008/10/30/campaigns_push_energy_issues_to_the_forefront/

Candidates back independence, differ on methods

By Bina Venkataraman

With oil and gas prices at record levels this summer, the presidential candidates have talked more about energy than most, if not all, White House hopefuls in recent decades.

Republican vice presidential candidate Sarah Palin yesterday questioned the Democratic ticket's commitment to energy independence, saying her counterpart, Senator Joe Biden, has opposed offshore drilling and use of "clean coal" technology in the United States.

Senator Barack Obama has been less enthusiastic in his support for offshore oil and gas drilling and nuclear power than Senator John McCain, while McCain has voted against federal subsidies for alternative energy projects.

Obama and McCain, however, say that eliminating dependence on foreign oil and combating climate change will be a top priority if they are elected.

Here is a closer look at what they have said about their energy and environmental agendas:

Fossil fuels
Obama and McCain say they support offshore drilling for oil. Neither supports drilling in the Arctic National Wildlife Refuge. (Palin supports drilling in the refuge, located in Alaska. The McCain campaign has called Palin, the Alaska governor, one of the nation's foremost energy experts and indicated she would have purview over the issue in a McCain administration.)

Obama supports a five-year windfall profits tax on oil companies, while McCain opposes such a tax. McCain emphasizes the expansion of the domestic oil supply more than Obama does.

Both candidates say they support "clean coal," technology that would capture carbon dioxide from coal-fired power plants, which supply half of the country's electricity, and bury the gas underground.

The technology however, would probably require billions of dollars of investment and more than a decade to become viable.

Nuclear power
McCain is calling for the construction of 45 nuclear power plants by 2030, but has not said whether he would support government subsidies to build the plants.

Obama says he does not rule out "safe" nuclear power as one alternative energy option, but has frequently expressed concern about disposal and recycling of nuclear waste.

Renewable energy
Obama proposes a $150 billion investment over 10 years in clean energy technology, including plug-in cars, biofuels, and wind and solar power. He backs a requirement that 25 percent of the nation's electricity be produced from renewable energy sources by 2025. He supports ethanol subsidies.

McCain also says he would invest in alternative energy, though he has not proposed a minimum requirement for producing power from renewable sources, nor a specific dollar figure of investment in renewable energy technology.

His platform emphasizes modest tax credits for companies that develop such technology, and he says he would offer a $300 million prize to the developer of a low-cost battery for plug-in or hybrid vehicles. McCain opposes subsidies for ethanol.

Climate change
Both candidates support forms of cap-and-trade regulations, which in general set limits on greenhouse gas emissions and allow companies that can't meet those standards to buy "pollution permits" from companies that reduce emissions below the limits.

Obama calls for reducing greenhouse gas emissions to 80 percent below 1990 levels by 2050. Most environmental groups say that this target, at a minimum, is necessary to forestall the worst consequences of global warming, while critics say that such legislation could be difficult to pass in Congress.

Obama is also calling for all of the pollution permits in a national cap-and-trade system to be auctioned by the government, as opposed to given away to businesses before trading begins.

McCain is calling for a 60 percent reduction below 1990 levels in greenhouse gas emissions by 2050.

He would hand out at least some credits free to coal-fired power plants and other businesses until an undisclosed date. He would also initially offer some companies the option of meeting emissions targets by paying for "offsets," activities such as planting trees that are proven to absorb carbon dioxide from the atmosphere.

Both senators co-sponsored a bill in 2007 that included cap-and-trade rules to reduce greenhouse gas emissions by 67 percent from current levels by 2050, a goal that is less stringent than those that use 1990 emissions levels as a benchmark.

McCain has led groups of senators to the Arctic and Antarctica on at least three occasions to observe evidence of climate change.

Critics argue that his greenhouse gas emissions targets are not aggressive enough and point out that Palin has said she has doubts about whether global warming is caused by human activities.

High crude prices drive Exxon to another record profit
Greenwire, October 30, 2008; http://www.eenews.net/Greenwire/2008/10/30/4

Ben Geman

High crude oil and gasoline prices propelled Exxon Mobil Corp. to a record third-quarter profit of $14.83 billion.

The Irving, Texas-based company's profit for July-September, up 58 percent from the same period a year ago, reflects crude prices that reached $147 per barrel over the summer.

Royal Dutch Shell PLC also reported a steep jump in profits today (see related story), while BP PLC yesterday reported that its third-quarter profit was $8.05 billion, and ConocoPhillips reported a sharp jump in profits last week (E&ENews PM, Oct. 22).

However, the steep oil price decline in recent months means that oil companies probably will not repeat this quarter's high earnings anytime soon. Oil is currently trading at roughly $65 per barrel on the New York Mercantile Exchange.

Exxon CEO Rex Tillerson said the economic crisis has not affected this year's capital spending, which is projected to total about $25 billion. "Despite the continuing uncertainty in world financial markets, Exxon Mobil has maintained a strong financial position," he said in a prepared statement today.

Tillerson told reporters at the American Petroleum Institute's annual meeting in Arizona last week that the drop in oil prices has not changed the company's projected five-year, $125 billion spending plan (E&ENews PM, Oct. 20).

The high crude oil prices during the third quarter meant Exxon's profit soared despite lower oil and natural gas production. Production declined by 8 percent compared with the third quarter of last year, in part a reflection of summer hurricanes that halted Gulf of Mexico production.

Oil production, at nearly 2.3 million barrels per day, fell 246,000 barrels per day compared with the same period last year, while natural gas production dipped by 460 million cubic feet per day.

"Quarterly upstream volumes were down 24,000 oil equivalent barrels per day and costs were higher by $50 million before tax, due to the hurricanes," Tillerson said. Increased maintenance at production sites also contributed to the drop, according to the company.

Exxon estimates that repairing the damage from Hurricanes Gustav and Ike, which battered offshore platforms and refineries, will cut into next quarter's earnings. "Damage repairs and lower volumes across all business lines associated with the hurricanes are expected to reduce fourth-quarter earnings by about $500 million," Tillerson said.

Exxon reported exploration and production unit earnings of $9.35 billion, up more than $3 billion from the same period a year ago, with higher prices more than offsetting lower sales volumes. Refining earnings were around $3 billion.

Exxon is the world's largest publicly traded oil company.

Third Oil Royalty Office Official Indicted
Washington Post, October 29, 2008;
http://voices.washingtonpost.com/washingtonpostinvestigations/2008/10/third_oil_royalty_office_offic.html

Derek Kravitz

A former top administrator with the beleaguered agency that collects oil and natural gas royalties for the U.S. government was indicted yesterday on charges he accepted improper gifts from a contractor and lied about it to his supervisors.

Donald C. Howard, 58, of Destrahan, La., was a former regional supervisor of the Gulf of Mexico region for the Minerals Management Service. Howard, who oversaw federal leases for the government, was charged yesterday (statement) in the federal court in Louisiana with making false statements, a felony that carries a penalty of up to five years in prison and a $250,000 fine.

Prosecutors allege that Howard failed to disclose more than $2,000 in gifts and out-of-state travel expenses billed to the contractor, which were far more than the $285-per-year legal limit. The court documents did not identify the contractor.

Howard received the undisclosed gifts in 2004 and filed the false statement in October 2005, prosecutors allege. Howard's attorneys, Richard T. Simmons Jr. and Glenn W. Burns of Metairie, La., did not immediately return calls seeking comment.

Howard is the third former Minerals Management Service employee to be charged this year since investigators uncovered a pattern of corruption at a tiny agency office near Denver. The August 2008 inspector general's report (PDF) found that employees accepted gifts, steered contracts to favored clients and engaged in drug use and illicit sex with employees of the energy firms whose drilling contracts they controlled in a multi-billion-dollar program.

The U.S. Interior Department program collects oil and gas royalties from private companies drilling on federal land or offshore.

Two retired royalty office supervisors -- Milton K. Dial, 60, of Las Vegas and Jimmy W. Mayberry, 65, of Strawn, Texas -- have pleaded guilty to similar conflict-of-interest charges.

Mayberry pleaded guilty in July to a felony conflict-of-interest charge in a scheme that awarded roughly $1.4 million to his own firm for technical advice from his old employer. According to court documents, Mayberry created the requirements for the contract immediately before he retired, knowing he would bid on it.

Dial pleaded guilty in September to arranging the contract for Mayberry, who had hired Dial within six months of Dial's 2004 retirement, court records show. Dial's role violated restrictions on former employees of the executive branch.

Mayberry is scheduled to be sentenced in November and Dial in December, each facing maximums of five years in prison and a $250,000 fine.

Howard's conviction comes on the heels of a Government Accountability Office report (PDF) released today that found the government's oversight of its natural gas production under the royalty-in-kind program to be "less robust" than its oversight of oil production.

"As a result, MMS does not have the same level of assurance that it is collecting the gas royalties it is owed," the report said, also noting that the agency has self-reported some figures and that its annual reports to Congress "in some instances, may overstate the benefits of the program."

Benefits of royalty-in-kind program unclear – GAO
E&E News, October 29, 2008; http://www.eenews.net/eenewspm/2008/10/29/3/

Noelle Straub

The federal royalty-in-kind program fails to use available, independent data to verify billions of dollars owed annually and instead relies on gas companies to self-report the amounts, a Government Accountability Office report released today said.

And Minerals Management Service methods to prove the worth of the program are flawed to the point of "making the financial benefits of the royalty-in-kind program unclear," the GAO report said.

The report requested by several members of Congress focuses on MMS's royalty-in-kind program, which allows companies to pay in the form of oil and gas rather than cash. Revenues from oil and gas received in kind in 2006 were about $4.12 billion.

MMS compares companies' self-reported oil production data with third-party pipeline meter data to ensure that the companies are reporting correctly, the report says. While similar information is available on the gas side, MMS does not use it. A panel appointed by the Interior secretary to examine MMS's royalty program reported last year that the agency was not adequately staffed to conduct sufficient review of the gas data.

"MMS's oversight of its natural gas production volumes is less robust than its oversight of oil production volumes," the report says. "As a result, MMS does not have the same level of assurance that it is collecting the gas royalties it is owed."

The GAO analysis of gas pipeline data showed that for the months of January 2004, May 2005, July 2005 and June 2006, 25 percent of the pipeline metering points had an outstanding discrepancy between self-reported and pipeline data.

"MMS has recognized that it needs to improve the data in the gas verification system," the report says, adding that Interior is implementing a "recommendation action plan" to address the problem.

The report also says MMS's annual reports to Congress do not fully describe the performance of the royalty-in-kind program and, in some instances, may overstate the benefits of the program.

For example, MMS's calculation that from fiscal 2004 to 2006 it sold oil and gas for $74 million more than it would have gotten in cash royalties was based on assumptions -- instead of actual sales data -- about the prices at which the companies could have sold their product. "MMS did not report to the Congress that even small changes in these assumptions could result in very different estimates," the report says.

Also, MMS's calculation that the royalty-in-kind program cost $8 million less to administer than a cash program did not include costs like information technology that would likely have changed the results.

"In addition, these annual reports lack important information on the financial results of individual oil sales that the Congress could use to more broadly assess the performance of the royalty-in-kind program," the report says.

GAO recommends that MMS use third-party information to verify royalties owed and that it take specific steps to improve calculations of the benefits and costs of the royalty-in-kind program.

Interior generally concurred with GAO's findings and recommendations, the report says, but raised concerns about specific methods to implement two recommendations related to the calculation of benefits and costs.

The report comes as the latest in a series of harsh criticisms of MMS both by GAO and the Interior inspector general. In two reports last month, GAO said a comprehensive review of the government's system for collecting oil and gas royalties must be undertaken and that MMS does not know whether it is collecting what is due because of the self-reporting and because MMS employees have not carried out required inspections of leases and metering equipment.

McCain says states deserve more offshore oil money
AP, October 29, 2008; http://ap.google.com/article/ALeqM5iE2JCSH5p9r2GBkQWS9TWAMzmuvQD9449FN80

By MIKE GLOVER

MIAMI (AP) — Republican John McCain said he would boost the revenue Florida and other coastal states get from offshore drilling production, which he said would leave the decision on drilling to the states but give them an incentive to increase production.

"We will drill offshore, and we will drill now," the Republican presidential candidate told a rally in Miami's Little Havana. "If we're going to drill off the state of Florida, you deserve more of those revenues. They shouldn't be sent to Washington, they should be sent to Tallahassee."

Since dropping his opposition to more offshore rigs this summer, McCain has made increased offshore production a centerpiece of his energy policies, while still leaving the final decision to states. Financial incentives would make them more likely to move. Energy experts note that oil produced by new offshore drilling wouldn't reach consumers for years and would have no short-term affect gasoline prices, which are already falling.

McCain was spending his day competing for Florida's 27 electoral votes, considered crucial to his effort to assemble the needed 270 as the candidates focus on a shrinking number of battleground states. The Cuban section of Miami is a devout Republican base that he sought to energize with derisive references to the Cuba's Castro brothers and ridicule of Democratic rival Barack Obama's willingness to talk with hostile foreign leaders.

As for the Castro brothers, "We'll sit down with them right after they empty the political prisons," McCain said.

While McCain has spent much of his time distancing himself from President Bush, he gave Bush a nod in a place where he remains popular.

"It's not an accident that the United States of America has not been attacked since 9/11," McCain said. "I do believe the President of the United States deserves some credit for that."

Later in the day to highlight his edge in experience over Obama, McCain was heading to Tampa to sit down with military officers who advise him on national security.

Throughout the day, the former Navy pilot and Vietnam prisoner of war touched on both national security and the economy.

"I have a plan to hold the line on taxes and cut them to make America more competitive," said McCain. Speaking at a Miami lumber yard that employs 100 people, down from 300 because of economic turmoil, he argued that Obama's economic plans would devastate small businesses.

"Sen. Obama and Sen. Biden ought to understand: Raising taxes makes a bad economy worse," McCain said. He warned that Obama's rhetoric masks a big-spending liberal politician.

"He can't do that without raising your taxes or digging us further into debt," said McCain.

And McCain has crafted a populist argument to deflect conservative criticism of his vote a $700 billion bailout of financial institutions. "I'm going to make sure we take care of the working people who were devastated by the excess and corruption of Wall Street and Washington," he said.

Most polls show McCain trailing Obama nationally and in key battleground states, but the Arizona senator has built into his standard stump speech a dismissal of those figures. "They were wrong before and they're wrong now," said McCain.

McCain acknowledged the importance of the state that sealed Bush's election by 537 votes in 2000.

"We've got to bring Florida home in our victory column," said McCain, though he conceded, "There's less than a week to go and we're a few points down."

From Florida, McCain planned to return to hotly contested Ohio for two days of campaigning by bus.

Rigged: Credit Crunch Whacks Offshore Oil, Too
WSJ, October 28, 2008; http://blogs.wsj.com/environmentalcapital/2008/10/28/rigged-credit-crunch-whacks-offshore-oil-too/

Posted by Keith Johnson

Just when the oil industry thought it was safe to go back in the water, along comes the credit crunch.

Tighter credit threatens to delay or kill a big chunk of the offshore drilling rigs under construction around the world. That’s bad news for Big Oil, which in recent years has suffered from a dearth of offshore rigs, but which was hoping for some relief in coming years. But it’s good news for established drilling operators who find their precious rigs are still in hot demand, and still fetch big leasing rates.

Falling oil prices haven’t killed offshore oil drilling (yet), or the demand for rigs. Since they are booked years in advance on long-term contracts, rigs are immune to short-term swings in the oil price. But with global demand for oil tapering off, or even set to fall next year, does the world really need more offshore oil rigs?

Most of the recent oil discoveries have come offshore, such as Brazil's massive Tupi field. Angola overtook Nigeria as Africa's biggest oil producer on the back of its offshore wealth. The U.S. debate over increased oil production centered on the outer continental shelf.

And offshore oil production from new fields is important not just to boost global oil production, but just to tread water. Older, established oil fields from the Middle East to Mexico are declining quickly, and new offshore fields are one way the industry hopes to stanch the decline.

The credit crunch threatens 20% of the 100-odd rigs currently on order, Bloomberg reports. Newer, smaller drilling operators that jumped into business to meet burgeoning demand are the hardest hit. The effects ripple up the food chain: Brazil's Petrobras, for instance, is counting on rigs from many small operators to start seriously exploiting its offshore finds.

That leaves more established drilling outfits—such as Transocean, Noble Drilling, and Offshore Diamond—in good shape for now. Tighter supplies of oil infrastructure should keep their contract rates high, executives say. And many think they can snap up some rigs under construction at knockdown prices.

Now, their only fear is that the credit crunch and economic crisis keep pushing oil prices down—cheap oil makes expensive offshore production an ugly duckling.

FACTBOX: Presidential candidates on energy issues
Reuters, October 28, 2008; http://www.reuters.com/article/politicsNews/idUSTRE49R5MK20081028

(Reuters) - U.S. energy policy has become a major issue for the 2008 presidential campaigns after high energy costs added to the consumer woes this year and both parties seek to reduce dependence on foreign oil.

Here is a look at what Democratic candidate Barack Obama and Republican rival John McCain are saying about energy issues. Comments from analysts on the candidates policies can be found here:

OFFSHORE DRILLING
Obama opposed lifting the congressional moratorium on drilling in federal lands off U.S. coasts, but now says he would support limited expanded offshore drilling as a part of broader legislation to help solve America's energy problems.

McCain supports expanding offshore drilling to tap the estimated 18 billion barrels of oil on the U.S. outer continental shelf. "We can do this in ways that are consistent with sensible standards of environmental protection," he said.

STRATEGIC PETROLEUM RESERVE
McCain opposes releasing oil from the emergency stockpile unless there is a serious supply disruption.

Earlier in the campaign, Obama opposed releasing oil from the reserve unless there was a severe supply disruption, but he now supports releasing 70 million barrels of light sweet crude, which would be replaced later with heavier crude.

WINDFALL PROFITS TAX
Obama supports a five-year windfall tax on profits of large oil companies. The proceeds from the tax would pay for a $1,000 tax rebate for low- and middle-income families to help them cope with rising energy prices.

McCain opposes raising taxes on oil companies.

ALTERNATIVE ENERGY
Obama wants to create a $7,000 tax credit for purchasing "advanced" vehicles, one million plug-in hybrid cars on the road by 2015, boost the Renewable Fuel Standard to at least 60 billion gallons of advanced biofuels like cellulosic ethanol by 2030; build out ethanol distribution infrastructure, mandate that all new vehicles be "flexfuel" by end of his first term, produce 2 billion gallons of "cellulosic" ethanol from non-corn sources like switchgrass by 2013.

McCain opposes ethanol incentives and said he would eliminate the import tariff on sugar cane-based ethanol. He generally opposes subsidies and tariffs that distort marketplace; supports a $5,000 tax credit for purchasing zero carbon emission cars; other cars will receive tax credits on a graduated scale with lower carbon emission cars receiving higher tax credits; supports shifting to "flexfuel" vehicles.

SPECULATION ON FUTURES MARKETS
Obama proposed requiring U.S. energy futures to trade only on regulated exchanges; wants more data gathered on index funds and other similar types of investors in futures markets; backs legislation directing the Commodity Futures Exchange Commission to investigate proposals such as increasing margin requirements in the market; supports fully closing the Enron Loophole.

McCain has expressed concern about excessive speculation in futures markets. He also supports closing the Enron Loophole, investigations into possible market manipulation and reforming the laws and regulations governing the oil futures market to make them more transparent and effective.

NUCLEAR POWER
McCain wants to build 45 new nuclear reactors by 2030, and ultimately wants 100 new nuclear plants built in U.S. He supports storing nuclear fuel at Yucca Mountain repository in Nevada desert.

Obama supports nuclear power, but says disposing of nuclear waste from U.S. plants and solving nuclear proliferation concerns are important. He opposes the Yucca Mountain plan.

GASOLINE TAX HOLIDAY
McCain proposed the gasoline tax holiday. He would divert funds from general government revenues to pay for transportation projects funded by the tax.

Obama opposes temporarily lifting the federal tax on gasoline. He said the suspension of the tax would save each American family less than $30 and is not a real solution.

CLIMATE CHANGE
Obama would cut carbon dioxide emissions to 80 percent below 1990 levels by 2050; reduce emissions to 1990 levels by 2020; require fuels suppliers to cut carbon content by 10 percent by 2020.

McCain favors a cap-and-trade CO_2 approach. He sponsored a bill in 2007 to cut emissions by 30 percent by 2050.

OIL USE
McCain wants United States to be independent from foreign oil by 2025. Obama would reduce overall oil consumption by at least 35 per cent - or 10 million barrels per day - by 2030, to offset imports from OPEC nations.

ARCTIC NATIONAL WILDLIFE REFUGE
Obama opposes Arctic National Wildlife Refuge drilling. McCain wants more offshore oil drilling, does not support ANWR drilling "at this time."

ENERGY RESEARCH
Obama wants to invest $150 billion over 10 years on low-carbon energy sources, double R&D spending on biomass, solar and wind resources; accelerate commercialization of plug-in hybrids, invest in low-emissions coal plants.

McCain proposed offering a $300 million prize to the auto company that develops a next-generation car battery that will help America become independent from oil. He would commit $2 billion annually to advancing clean-coal technology.

VEHICLE FUEL ECONOMY
Obama would double fuel economy standards in 18 years; give automakers tax credits to retool plants and invest in advanced lightweight materials and new engines.

McCain has not specified Corporate Average Fuel Economy (CAFE) targets. He voted against energy amendments in 2003 that would have boosted CAFE to 40 mpg by 2015. He supports increasing fines for car companies that do not meet CAFE standards and wants to provide tax credits based on vehicles' carbon emissions.

ELECTRICITY
Obama wants to require U.S. utilities to get 25 percent of their electricity from renewable sources like wind and solar by 2025.

McCain wants to reduce red tape to increase investment to upgrade the national grid; he wants the grid to have the capacity to charge electric cars on a mass scale and supports the use of SmartMeter technologies, which give customers a more precise picture of their energy consumption and encourage more cost-efficient use of power.

The Election Choice: Energy
WSJ, October 28, 2008; http://online.wsj.com/article/SB122515084360974157.html?mod=googlenews_wsj

By Joseph Rago

Major differences on nuclear power and oil exploration

Discounting election-year hyperbole, Barack Obama and John McCain are broadly like-minded in their approach to energy and the environment. Though important policy differences exist, both support "energy independence" and a large-scale reorganization of the U.S. economy in the name of climate change. The candidates, in other words, come in different shades of green.

Global warming. Both Messrs. McCain and Obama support the taxation and regulation of greenhouse gases, which is also a top priority of congressional Democrats. A "cap and trade" program would set an economy-wide limit on emissions that declines every year. Businesses would then buy and sell permits that stand for the right to emit these gases, and pass the costs down through the energy chain to consumers. Mr. McCain, who joined with Joe Lieberman in 2003 to introduce Congress's first climate bill, wants to reduce U.S. emissions to 60% below 1990 levels by 2050. Mr. Obama would shoot for 80%.

Cap and trade. Mr. McCain's cap-and-trade stance is more market friendly: He would allow its built-in incentives to motivate the investments and behavioral changes necessary for a postcarbon economy. Mr. McCain would also include offsets, which allow businesses to meet their emissions targets by paying someone else to reduce carbon usage. Offsets would reduce the overall burden of a carbon program but would also result in fewer real emission cuts.

Mr. Obama is stricter, overlaying his cap-and-trade agenda with an array of federal mandates, regulations and subsidies. He would increase the ethanol and biofuel production requirement to 60 billion gallons a year by 2030 -- 67% higher than the current goal. Mr. Obama would also double fuel-economy standards for cars and trucks; mandate that all new vehicles are flex-fuel, which means able to run on any blend of gasoline and ethanol; require that all new buildings are carbon-neutral by 2030, in addition to multiple other efficiency rules to discourage energy consumption; and detail a 10-year, $150 billion project of government-directed research into alternative energy technologies.

Carbon auctions. Another important difference is that Mr. Obama would auction off all carbon permits on the "polluter pays" principle. Mr. McCain would initially give away the permits to utilities and other industries while introducing auctions over time. The Obama approach is more efficient. Once the permits are waved into existence, they immediately have dollar value; the question is who benefits. Auctions would also raise trillions of dollars that could be used to offset the economic drag of a carbon crackdown.

However, Congress is unlikely to devote its windfall to cutting taxes elsewhere, such as on labor and capital. Instead, the money will likely to go to political patronage, such as Mr. Obama's "green-collar jobs" program, or to compensate states in the South and Midwest that rely more heavily on carbon energy and would be hit especially hard by cap and trade.

Nuclear power and electricity. Mr. McCain wants to expand America's fleet of nuclear power plants, which emit no greenhouse gases, and he promises to fast-track and build some 45 by 2030. Mr. Obama hasn't ruled out expanding nuclear power, but he says safety and waste storage concerns must be resolved before moving forward.

Mr. Obama would impose a "renewable portfolio standard" that utilities generate at least 25% of their power by 2025 from noncarbon sources such as wind and solar, which are currently marginal parts of the energy mix. He promises to invest in smart metering, distributed storage and eventually a national electricity grid. Mr. McCain says he'll modernize the grid too.

Coal. The Democrat is especially hostile to conventional coal plants, which today supply nearly 50% of U.S. electricity, and Joe Biden has said publicly the U.S. should build no more coal plants. Mr. Obama does claim to support "clean coal," as does Mr. McCain. However, this technology to capture carbon and bury it underground is far from commercial deployment, and it is unclear if even new funding is enough to overcome its practical limitations.

Fossil fuels. Despite the green aspirations of the candidates, the U.S. economy will continue to depend on oil, natural gas and coal for decades, though obviously their prices will rise substantially if carbon is taxed. While Mr. McCain was skeptical of drilling in his 2000 presidential bid, he currently favors expanding domestic offshore energy exploration, and he'd give states a share of the leasing royalties if they permitted drilling off their coasts. The Outer Continental Shelf is estimated to contain 86 billion barrels of oil and 420 trillion cubic feet of natural gas.

Mr. Obama initially opposed all new drilling but reversed himself in August. He now says he could support a limited expansion as long as it is part of a larger energy package. Mr. Obama has also called for a windfall profits tax on the American oil majors.

Pressured by the GOP's "drill, baby, drill" offensive, Democrats allowed the offshore moratorium to lapse earlier this fall, and they plan to reinstate it next year if Mr. Obama wins. That move would be far more difficult politically if Mr. McCain wins. A McCain Interior Department could significantly expand domestic oil-and-gas production, depending on its willingness to confront the environmental lobby.

Calif. regulators deal blow to wave project
E&E News, October 27, 2008; http://www.eenews.net/eenewspm/2008/10/27/4/

Colin Sullivan

SAN FRANCISCO -- A proposed wave energy project off Northern California was dealt a potentially crippling blow last week when regulators here rejected a power purchase agreement between Pacific Gas & Electric Co. and Finavera Renewables.

The California Public Utilities Commission refused a 15-year agreement under which Finavera would have run the 2-megawatt offshore buoy system in Humboldt County, Calif., to provide power to the investor-owned utility PG&E.

The PUC said the project is not currently viable and noted that a prototype Finavera buoy deployed off the Oregon coast in 2007 sank within six weeks.

"The wave energy industry is in a nascent stage," the PUC said in its ruling, arguing that PG&E had failed to demonstrate enough advancement to justify a power purchase agreement. "There is significant uncertainty surrounding wave technology viability."

Also rejected was a bid for $6 million to fund PG&E's proposed WaveConnect projects. The projects are meant to confirm the feasibility of extracting power from ocean waves, but the utility did not "provide a sufficient showing that the technology will be able to perform," the ruling said.

In response, PG&E and Finavera officials said they intend to continue pressing their case. PG&E said the rate request and 15-year agreement were reasonable because the project is small and unlikely to affect ratepayers if it never comes through.

"A failure to approve the project could negatively affect wave power development in California," said PG&E in a statement responding to the PUC action.

For their part, Finavera executives have started looking for alternative funding sources for the research and development stage of the project. The company is currently looking at forming a private consortium, according to a joint statement with PG&E.

Finavera's 2-MW project in Humboldt County was projected to come online on Dec. 1, 2012. It is not clear how the ruling will affect that projection.

Reversing ban on Great Lakes drilling unlikely
Toledo Blade, October 27, 2008; http://toledoblade.com/apps/pbcs.dll/article?AID=/20081026/NEWS16/810260316

Reversing ban on Great Lakes drilling unlikely

Talisman Energy Corp. has used a portable compressor on a platform in Lake Erie to help push natural gas from its wells. The Canadian company removes the platforms in winter.

By TOM HENRY

Drill, Baby, Drill.
Those three words became the rallying cry at the Republican National Convention in St. Paul seven weeks ago, with GOP delegates pumping their fists in the air and embracing the newly announced McCain-Palin ticket with cheerleaderlike enthusiasm.

Republicans were unified on tapping more domestic sources of oil and natural gas, leaving millions of television viewers with the message that times have changed and no place is off-limits.

So what does that mean for the Great Lakes, which the U.S. Geological Survey says still have an estimated 312 million barrels of oil, 5.2 trillion cubic feet of natural gas, and 122 million barrels of natural-gas liquids stored beneath them?

Apparently nothing, except more campaign rhetoric to sift through.
"John McCain supports drilling in the Outer Continental Shelf in an environmentally sensitive manner and in consultation with the states. He is not proposing that similar drilling proposals should be extended to the Great Lakes region, which is protected by separate federal statute," according to an e-mail to The Blade last week by Paul Lindsay, Mr. McCain's campaign spokesman.

The lakes have been off-limits to more drilling since the first in a series of bans was enacted years ago.
Congress made the federal ban permanent under the Bush-Cheney Energy Policy Act of 2005 that was supported by Democratic presidential nomi-nee Barack Obama, but opposed by Mr. McCain.

Candidate positions
While neither candidate claimed to be interested in expanding the limited shoreline drilling that has occurred for decades in Michigan and Ontario, both declined interviews on the topic.
The Obama campaign agreed to a 30-minute interview with Heather Zichal, a senior policy adviser on energy, environment, and agriculture policy for the Illinois senator.
It did not want direct quotes from her used without being run through a campaign spokesman.

Mr. Lindsay declined to have himself or a McCain policy adviser be interviewed on the phone.
He did not respond to a number of questions in his e-mails.
He would not expand on his opening statement that the prospect of expanded lake drilling could be interpreted to mean Mr. McCain favors the status quo for the time being.
"John McCain supports drilling where it can be done in an environmentally sensitive way and it is supported by the states," Mr. Lindsay wrote in a follow-up e-mail.
He reaffirmed the Arizona senator's position on drilling in Alaska's Arctic National Wildlife Refuge, saying Mr. McCain is opposed to it "because he believes we confer a special status on areas of our country that are best left undisturbed."
Mr. Lindsay declined to comment on the support for ANWR drilling from Mr. McCain's running mate, Alaska Gov. Sarah Palin.

The energy bill that permanently banned expanded Great Lakes drilling was approved in the Senate by 85-12, with three abstentions.
Mr. McCain was one of five Republicans who voted against it.
He did so because the bill "included billions in sweetheart deals for big business and oil companies," Mr. Lindsay said.

Mr. Obama believes there are areas that need to remain off-limits to drilling.
"The Great Lakes is one of them," Ms. Zichal said.
The Great Lakes hold 90 percent of the fresh surface water in the United States and 20 percent worldwide.
"That's something that's not to be overlooked," Ms. Zichal said.
A source of frustration

Sitting on the sidelines is Tom Stewart, executive vice president of the Ohio Oil and Gas Association.
He's not happy.
He's upset over 475 wells in Canada that are extracting natural gas from the north side of Lake Erie between Port Alma, Ont., and Port Colburne, Ont.
An additional five wells are extracting oil from beneath the lake bed near Leamington, Ont.
"We simply have left it to the Canadians. They're fully developing their resources," Mr. Stewart said. "They have to be draining American resources."
Michigan has a much smaller operation: Three shoreline wells in Manistee County that extract natural gas from the eastern side of Lake Michigan and two shoreline wells in Bay County that extract natural gas beneath the western side of Lake Huron.
Its only other two wells along the shoreline are in Manistee County.
Both had been used to extract oil beneath Lake Michigan and are now out of service.
One has been temporary abandoned and the other has been capped, said Robert McCann, Michigan Department of Environmental Quality spokesman.
'Very little support'
Mr. Stewart said there is "very little political support for [more drilling] from the Republican and Democratic side."
Why?
"Because it's the Great Lakes," he said. "Let's face it. Lake Erie is Ohio's crown jewel. It becomes an extremely emotional issue."

While he's angry that Ohio has to sit and watch Ontario extract resources from beneath Lake Erie, Mr. Stewart said Republicans did little to advance the issue with the "Drill, Baby, Drill" mantra that emerged from their convention.
Much of the public automatically links oil and gas development with pollution, oblivious to modern technology and the science that go into proper siting and construction of wells, he said.
The GOP's chant trivializes the issue and does a disservice to the industry by suggesting it's ready to stick rigs anywhere, Mr. Stewart said.
"You can't deal with complex issues such as energy exploration with sound bite. You can't trivialize it with 'Drill, Baby, Drill," he said.

A slanted approach
Canadian drillers have placed some 2,500 wells beneath Lake Erie since 1913, although most of the large-scale activity didn't begin until the 1960s.
The 480 still in production are down from 550 in 2001. All are owned and operated by Talisman Energy.
The wells, like those in Michigan, are drilled from the shoreline in such a way that they penetrate beneath the lake at an angle and do not pass through water. The technique is called slant, or directional, drilling.
Talisman has 475 of the wells between Ontario's Port Alma and Port Colburne that extract natural gas.
The company often has a portable compressor on a platform in the lake, between Port Stanley, Ont., and Port Burwell, Ont., to help push out natural gas from its wells on land.
The compressor is removed before ice forms.
It was not used this past summer, though. Talisman Energy didn't see the need for it.
The company has five other shoreline wells near Leamington.
They extract oil beneath the lake.

For those wells, Talisman deployed a technique known as horizontal drilling, in which a drill bit is moved horizontally to avoid contact with the lake.
Those five oil wells were drilled nearly two-thirds of a mile beneath the lake bed, said Scott Tompkins, Talisman's superintendent for Ontario.
The company hasn't drilled wells at other sites along Lake Erie the past two years and is keeping its drilling program suspended through at least 2009, Mr. Tompkins said.
Phasing down
The activity along the Canadian side of Lake Erie has been phased down because Talisman is focusing on higher-production sites.
"There are bigger projects in the world that Talisman has to focus on," Mr. Tompkins said.

Lake Erie "is a nice niche opportunity, but we always weigh where we are and how profitable it is. It's a matter of balancing cash in hand versus growth opportunities elsewhere," said Dave Mann, a Talisman spokesman.
Having reserves documented doesn't mean oil and gas are recoverable, though.
Energy companies are unlikely to drill in Lake Ontario because of the abundance of salt mines that would plug up wells, said Joe Van Overberghe, executive director of the Ontario Petroleum Institute.
Michigan issued its first shoreline leases in 1945, but drilling did not start for 34 years. The five wells that are in operation now are among 13 that have been drilled since 1979.

Taking a stand, sort of
Great Lakes governors denounced offshore drilling through a memorandum of understanding in 1985. That didn't stop then-Michigan Gov. John Engler from announcing in 2000 that he would consider issuing more leases for slant drilling from the shoreline as a way of generating revenue for his cash-strapped state.
Activists were outraged. Mr. Engler, a Republican who is now president and chief executive officer of the National Association of Manufacturers, the Washington chief lobbyist group for the nation's industries, even caught flak from within his party, such as U.S. Sen. George Voinovich (R., Ohio), who supports drilling in ANWR but not in Lake Erie.

Michigan legislators responded in 2002 by banning additional drilling through or beneath the lakes that it borders, three years before the federal government's temporary ban became permanent.
Ohio Gov. Bob Taft banned all Lake Erie drilling along Ohio's border through an executive order in 2003.
The move was made just as the environmental unit of the Ohio Public Interest Research Group, now Environment Ohio, was about to go public with a report that showed his administration in 2000 had considered a $250,000 public relations campaign to sell the public on the idea of extracting oil and natural gas from the lake.
Now, even with prices for oil and natural gas bouncing up and down, Mr. Stewart sees little hope in trying to get Great Lakes drilling bans reversed.
"The Ohio Oil and Gas Association will never stop advocating for access," he said. "Politics is the art of the possible. [But] frankly, I just don't see it as possible right now."