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The Times-Picayune, March 1, 2009;
http://www.nola.com/business/index.ssf/2009/03/new_report_says_offshore_drill.html

by Jen DeGregorio

Just weeks after the administration of President Barack Obama signaled opposition to a Bush-era plan to expand offshore drilling, an energy-industry think tank is backing the initiative as an antidote for the nation's ailing economy.

Opening the rest of the Outer Continental Shelf to energy production could create 36 million jobs over the next 30 years, according to the report by the American Energy Alliance, a free-market policy organization based in Washington, D.C.

For Louisiana, that translates to nearly 30,000 new jobs annually for the first seven years of increased production as well as an additional 330,000 jobs predicted to arise over the next 30 years. The bulk of employment would come from investments in offshore facilities and new refineries, with other jobs stemming from sectors that feed on the offshore industry, such as shipbuilding.

The report speculates that states that already have the most energy infrastructure would profit most from expanded offshore drilling. Louisiana, which already refines about 15 percent of the nation's fuel, probably would see an influx of dollars to pay for expanding existing refineries and building new facilities, according to the report.

"Certainly there's every reason to believe that places like Louisiana will benefit even more than other locations, especially in the short run," said Joseph Mason, a business professor at Louisiana State University who drafted the report for the energy alliance. "We have a lot of the infrastructure already built that provides support to the Gulf. The ships, the crews, the supplies could easily come out of Louisiana ports that are already equipped to meet such needs."

Protected areas of the Outer Continental Shelf were opened to drilling in September, when Congress let long-held restrictions expire. President Bush already had lifted an executive ban on exploration and production in realms of the Atlantic and Pacific and off the coast of Alaska.

Just days before Obama took office, the Interior Department released a plan to lease drilling tracts in those areas and parts of the Gulf of Mexico that remain off limits because of special Congressional protections granted in 2006.

Whether those areas will actually be handed over to the energy industry remains to be seen. The plan earned a thumbs down from Secretary of the Interior Ken Salazar, tapped by Obama to lead the department that controls offshore drilling. Although Salazar did not entirely reject the Bush plan, he extended by 180 days a public comment period that was set to end next month. He also called for a review by Interior scientists and a strategy for incorporating renewable energy sources, such as wave energy, into the plan.

The Interior Department estimates that about 86 billion barrels of oil and 420 trillion cubic feet of gas remain in undiscovered fields in the Outer Continental Shelf. But critics of expanded drilling say those reserves represent just a drop in the bucket for a nation that consumes nearly 21 million barrels of oil each day.

Darryl Malek-Wiley, a Louisiana representative for the Sierra Club, applauded the Obama administration's move to postpone new drilling activity.

Although Malek-Wiley said he does not doubt that economic benefits could arise from increased drilling, he said the nation also could create jobs by investing in renewable energy technologies and tools to conserve fossil fuels.

"The current energy problem we have in America, we can't drill our way out of it," Malek-Wiley said. "If we put those folks to work insulating houses, helping folks buy energy-efficient appliances, those jobs could start tomorrow."

Lawmakers take on Obama tax hike on energy producers
Houston Chronicle, February 27, 2009; http://www.chron.com/disp/story.mpl/headline/biz/6285554.html

By JENNIFER A. DLOUHY

WASHINGTON — Energy-state lawmakers vowed Friday to block President Barack Obama's proposed $31.5 billion tax increase on oil and gas producers.

Obama's $3.6 trillion budget blueprint released Thursday targeted U.S. energy producers by imposing new taxes and fees, abolishing existing tax breaks and changing accounting rules.

Sen. Lisa Murkowski, R-Alaska, called the proposals "punitive provisions" that would raise revenues for the government but hurt the country's energy security.

Rep. Gene Green, D-Houston, said Obama's plans threaten the commercial viability of new domestic production and would price developers out of the market and force companies overseas.

"It would be devastating for the cost of energy and for the producing states," Green added.

Producers of traditional fossil fuels could face a hit of up to $100 billion if Congress heeds the president's request to abolish what he called of "oil and gas company preferences" in the tax code and adopts his cap-and-trade emissions program.

The energy industry would shoulder most of the cost of a cap-and-trade plan that would raise an estimated $79 billion in 2012 with new limits on pollutants blamed for climate change.

Some of the money raised by higher taxes on traditional energy producers would be used to underwrite development and deployment of clean energy technologies, including solar, biomass, geothermal and wind.

The president's budget would:

• Bar deductions for intangible drilling costs such as repairs, site preparation and hauling supplies. Producers say the deductions are essential to ensuring the viability of domestic drilling operations.

• Block oil and natural gas companies from claiming deductions for domestic manufacturing income. That change would save the federal government an estimated $757 million in fiscal 2011.

• Impose a new excise tax on Gulf of Mexico drilling leases, aimed at leases issued in the late 1990s that contain what the administration calls "excessive royalty relief" even when oil prices skyrocket. The new tax would send a projected $582 million to federal coffers in 2011.

• Establish a "use-it-or-lose-it" fee on nonproducing leases in the Gulf of Mexico designed to encourage companies to speed up development. Oil company executives on Wednesday told a congressional panel they already have financial incentives for quickly beginning production — if viable — on leases they hold.

• Establish new fees for processing oil and gas drilling permits on federal lands.

• End an oil and gas research and development program aimed at offsetting some steep costs of producing in ultradeep-water fields.

• Reinstate taxes on oil and chemical producers to fill the Superfund Trust Fund, which pays for cleaning hazardous industrial sites.

Lessening competition

The net effect of the proposals, said Mark Kibbe, director of federal relations for the American Petroleum Institute, is to “make U.S. projects less competitive with foreign projects.”

But House Natural Resources Committee Chairman Nick Rahall, D-W.Va., said the proposals would ensure “that taxpayers receive a fair return for the extraction of oil and gas resources.” The Obama plan would encourage “wealthy oil companies to diligently develop the leases they already possess on the Outer Continental Shelf,” he said.

The industry also would carry much of the costs of a proposed cap-and-trade program governing emissions. Some of the revenues from the program would be earmarked for renewable energy research.

Different approaches
Some industry leaders, including ConocoPhillips, BP America, and Shell Oil Co., have backed a broad cap-and-trade plan; others, such as Exxon Mobil Corp., have favored a more direct tax on carbon emissions.

Obama’s cap-and-trade proposal will be resisted by Republicans on Capitol Hill who say its costs would be passed on to consumers in the form of higher costs for energy and consumer products.

Rep. Kevin Brady, R-The Woodlands, said a cap-and-trade program carries too much risk, especially during a recession.

The initiative, he said, is “open to political manipulation and hidden taxes and real job harm.”

Rahall sees more agreement than disagreement over OCS strategy
Oil and Gas Journal, February 27, 2009;
http://www.ogj.com/display_article/354692/7/ONART/none/GenIn/1/Rahall-sees-more-agreement-than-disagreement-over-OCS-strategy/

Nick Snow

WASHINGTON, DC, Feb. 26 -- US House Natural Resources Committee Chairman Nick J. Rahall (D-W.Va.) said he sees more areas of agreement than disagreement about the US Outer Continental Shelf, as the last of the committee's three scheduled OCS hearings approached its conclusion on Feb. 25.

"There seem to be more commonalities than disagreements. I've been trying to explore those, and those commonalities won't be lost. Where this will take us hasn't been defined, except that we do need to get a comprehensive energy policy out of this Congress. Its development will involve other committees and won't fall entirely within this committee's jurisdiction. When it does, I hope this committee will work hard with a lot of give and take," Rahall said.

The next phase of OCS activity will require a commitment to tapping its wind, wave, and thermal energy potential as well as exploring for and producing oil and gas in an environmentally sound manner, he continued.

"There will be legislative acts of compromise while reaching that transition. But I hope at the end of the day that when these agreements are reached and compromises are made, these commonalities are etched not in stone but in our own good faith, and that we don't find that something else needs to be done down the road. I hope we can reach those areas of common agreement and have everybody on board when it comes time to develop legislation," Rahall said.

The apparent consensus among witnesses at all three hearings was that the next OCS moves should be part of a comprehensive US energy strategy and should include new as well as traditional sources. The disagreements were over how this could be achieved. Proposals ranged from moving ahead with evaluating the oil and gas resource potential of the parts of the OCS that have been off-limits for more than 25 years to reinstating leasing moratoriums that expired on Sept. 30.

It's a moratorium
Several committee members also expressed opposing viewpoints. Ranking Minority Member Doc Hastings (R-Wash.) said US Interior Secretary Ken Salazar's Feb. 10 action delaying development of a new 5-year OCS plan was a de-facto moratorium. "The true effect of Secretary Salazar's 6-month delay is a reinstatement of a ban on

drilling. Make no mistake: This action has precisely the same result as a moratorium. So let's call it what it truly is: a moratorium, not a delay," he said.

"The bottom line is that we need to develop the OCS, and we need to start now. We cannot keep sitting on our hands, talking, while all other industrialized foreign countries develop their own domestic resources. We have companies that are ready, willing, and able to invest private dollars to develop these resources, along with the technology to do so in an environmentally friendly manner, and we should let them," Hastings continued in his opening statement.

The six witnesses at the final hearing were chosen to represent industrial perspectives on the OCS. Rep. Lois Capps (D-Calif.) asked them if another 6-month delay was significant when it takes a long time to begin initial production from an offshore oil and gas lease already.

J. Larry Nichols, chairman of the American Petroleum Institute and Devon Energy Corp.'s chief executive, responded that a natural gas pipeline that runs from Louisiana to Florida passes by a 1 tcf discovery that could quickly come on stream. He questioned the need for additional meetings on the 5-year OCS plan being prepared because the US Minerals Management Service has received more than 152,000 comments already, with 87,000 or 57% of them supporting expeditious and expanded development.

Capps told him: "I would think that you might use that time, and some of your vast profits, particularly in relation to the rest of the economy, to address renewable energy technologies. Your companies certainly have been buying advertising about it,"

Not grounded in reality

The six witnesses challenged the notion that federal oil and gas leases are not diligently developing tracts they have been awarded and should not be given the opportunity to lease additional acreage. "While the 'Use it or lose it' concept makes a catchy bumper-sticker slogan, the arguments that are being made to support it are not grounded in reality," maintained Shell Oil Co. Pres. Marvin E. Odum.

"In fact, we evaluate all of our leases," Odum said in his written statement. "Prior to drilling, there are a number of activities that are taken on our leases as part of our overall exploration program. These activities include, but are not limited to, geological model building, seismic acquisition and processing, and reservoir analysis. The fact is, most are obtained in the exploration phase, and the vast majority will not result in the finding of commercial quantities of oil and gas. This is one of the key commercial risks inherent in this business," Odum wrote.

Gary P. Luquette, president of Chevron North America Exploration and Production Co., in his written testimony observed: "Simply stated, both the existing regulatory process and basic economics ensure that leases are developed in a diligent manner. Leases are acquired at significant expense through a competitive bidding process and are subject to annual rental fees. If drilling or production is not commenced within the primary term, the lease is automatically relinquished to the government along with all of the bid bonus and rental fees paid. Beyond this due diligence obligation built into the lease structure, the regulations and lease terms contain numerous additional requirements specifying leaseholder obligations," Luquette explained.

Nichols also noted that legal challenges and bureaucratic delays are common in both onshore and offshore oil and gas projects, often postponing delivery of new supplies to consumers.

"Even where a project has not been delayed or canceled, companies must carefully consider whether to risk further investment if litigation has been initiated, but not yet decided, in opposition to their project. Leases within projects that have been obstructed or canceled due to litigation or bureaucratic delays are often wrongly characterized as 'nonproducing' by opponents of offshore development," Nichols said.

Witnesses also cited estimates that the OCS contains 86 billion bbl of oil and 420 tcf of gas, but added that the numbers are conservative because they came from evaluations made decades ago that used now-outdated technology.

"We have seen historic resource underestimates result from this," said Tim Cejka, president of ExxonMobil Exploration Co. "Where industry has been able to collect data utilizing advanced technology, the resource estimates have grown. In 1987, for example, the US government estimated that there were 9 billion bbl of oil in the Gulf of Mexico. By 2006, advanced technologies caused the resource estimate for that area to grow to 45 billion bbl," Cejka explained.

28-year differences

"Consider that in 1981, when the OCS moratorium was first implemented, typewriters were on every desk, people were still listening to music on record albums, and the easiest way to get directions was to buy a map at the gas station," said Karen A. Harbert, president of the Institute for 21st Century Energy at the US Chamber of Commerce. "Today, we rely on personal computers and the internet, mp3 players, and GPS devices. Just as technology has the power to change and improve the way we live, it also has the power to change and improve the way we get our energy. The mongering fear that some engage in when it comes to expanding domestic production is neither factually accurate nor productive to a meaningful dialogue on our energy future."

The witnesses also generally opposed delaying leasing while the federal government conducts its own OCS resource potential evaluations. Nichols said that an inventory with existing technology would not uncover any new information, except to confirm that the areas which were previously off-limits contain large oil and gas deposits. "Exactly where these are would be another question. The most efficient approach would be to make these areas available and let the companies do their own research," he said.

Luquette said Chevron supports a phased approach to developing former moratorium areas, moving quickly to include highest priority areas in the 5-year OCS plan currently under development for 2010-15. The fact that there are 26 OCS planning areas makes it impractical for MMS to immediately focus on all the acreage formerly covered by moratoriums while continuing development in existing accessible regions, he said.

"A strategic approach to phasing in evaluation and leasing, starting with the most prospective areas and those closest to existing infrastructure, makes the most economic sense and will help bring on new domestic oil and natural gas as soon as possible," Luquette maintained. "Through the stakeholder input process, MMS will be able to identify those planning areas with the highest level of interest, which in turn may contain the greatest potential for commercial discovery of new domestic offshore resources."

Luquette also suggested that Congress could facilitate compilation of more-accurate OCS resource data by providing MMS money in its budget for this purpose and establishing a mechanism whereby companies could contribute to preleasing data collection.

'Virtual drilling'

BP America Inc. Chairman and Pres. Lamar McKay offered a more specific proposal in his written statement. "As a first step, we propose the acquisition of new regional 2D seismic data in the OCS in order to identify the most prospective regions. From there, closely spaced 2D or 3D seismic data can be acquired to identify the best prospects in each area. Such surveys are costly and complex to plan and implement but vastly increase the information content. This 'virtual drilling' protects the environment by providing greater accuracy in mapping deposits and reduces the need for drilling exploratory wells," he said.

Witnesses warned that delays in leasing more of the OCS could harm the US in the long run. "American domestic oil production has fallen by around 4 million b/d since 1985," McKay said. "At the same time, demand has risen by roughly similar amounts, so the gap must be filled by imports. And when world demand rises, as it did recently, particularly in China and India, it makes those imports more expensive. That accounts in part for the dramatic rise in oil prices we experienced last summer."

Since the first world oil price shock in 1973, it also has become apparent that wildly spiking and plunging prices kill jobs, McKay continued. The reduction of industry investment, as indicated by the number of operating US rotary rigs falling to 1,399, its lowest level since July 2005, poses a real economic risk, according to McKay.

"Prices could rise once again when the recovery occurs because investment may not be sufficient to offset the natural decline in the resource base. The challenge for all of us is to not allow this cyclical decline to create a structural loss in capacity. We must continue to invest in new technology and infrastructure development at the bottom of the cycle to provide continued access to supplies," he said.

The witnesses emphasized that climate change also should be a part of developing any comprehensive US energy strategy. "Fundamentally, it comes down to government taking its role in defining a framework," said Odum. "We need to create a viable, efficient, and workable market, and free enterprise will innovate and solve this problem. The energy industry has a key role to play, including working on carbon capture and storage technology solutions. Currently, this technology is too expensive, and our country lacks a regulatory framework to enable this technology."

Nichols added: "What the nation needs is a policy that increases, not decreases, domestic energy production. Offshore development is a vital component of US energy development. Barriers to offshore oil and gas production contribute to volatile energy prices, slower economic growth, lost American jobs, and a weakened US position in global markets.

"We need to find and develop our offshore oil and natural gas resources in an orderly, efficient, and environmentally sound way. By so doing, we can put America on the road to economic recovery and help ensure our nation's energy security for decades to come," Nichols concluded.

Obama's budget plan targets oil, gas tax breaks
USA Today, February 27, 2009; http://www.usatoday.com/money/industries/energy/2009-02-26-obama-budget-tax-plan-energy_N.htm

By Paul Davidson

President Obama's proposed 2010 budget takes pointed aim at oil and gas companies, eliminating myriad tax breaks and proposing new fees on the providers.
The plan put out Thursday would repeal tax breaks intended to spur oil and gas exploration and penalize companies that don't develop wells on land leased from the government. It could raise tens of billions of dollars the next decade.

OBAMA BUDGET: Unprecedented size, scope
TAXES: 'Good news' for lower, middle classes

The industry says the blueprint would discourage investment aimed at cutting oil imports.

"New taxes could mean fewer American jobs and less revenue at a time when we desperately need both," says Jack Gerard, president of the American Petroleum Institute (API).

FIND MORE STORIES IN: Gulf of Mexico | Energy Department | ExxonMobil | Consumer Federation of America | Petroleum Institute | Mark Cooper | Jack Gerard | Phil Weiss | Cathy Landry
But consumer advocates cheered the proposal.

The financial impact is "peanuts compared to the excessive profits they're earning," says Mark Cooper of, the Consumer Federation of America.

Oil giants such as ExxonMobil posted record profits in 2008, but fourth-quarter earnings plunged as crude oil prices tumbled. Among other things, the proposal over 10 years would raise:

• $5.3 billion by imposing a new 13% excise tax on offshore oil and gas production in the Gulf of Mexico to close loopholes that gave companies relief from certain royalty payments.

•$1.2 billion by charging a fee on companies that don't produce on their Gulf leases. Environmentalists say offshore drilling should not be expanded while existing leases lie fallow. But API spokeswoman Cathy Landry says unused leases are ultimately surrendered.

•As much as $10 billion by reinstating taxes to clean up hazardous waste sites.

•$11.5 billion by barring companies from writing off drilling costs, such as labor, and by limiting their ability to write off lease payments.

•$13.3 billion by scrapping a 6% tax deduction that benefits all U.S. manufacturers.

The moves could cost the industry several billion dollars a year. Industry profits in the U.S. totaled $125 billion in 2007, according to the Energy Department. Argus Research analyst Phil Weiss says the industry would be far more adversely affected by a windfall profits tax.

Shell Exec Says 'Too Early To Judge' Obama Oil, Gas Policy
WSJ, February 27, 2009; http://online.wsj.com/article/BT-CO-20090226-719854.html

By Siobhan Hughes

WASHINGTON (Dow Jones)--The president of Royal Dutch Shell's (RDSA) U.S. operations wrapped up a trip to the U.S. Capitol by striking a conciliatory note, repeating comments that it was too early to determine where the Obama administration was headed on oil and gas policy.

"I've really hesitated to jump to any conclusions about what the signals are yet," Marvin Odum said in an interview on Thursday. His comments came as the Obama administration proposed at least $31.5 billion in new taxes and fees on oil and gas companies and one week after the U.S. Interior Department delayed action on a proposal to open U.S. coastal waters to more oil and gas drilling.

"It's clearly a delay -- I'm not going to assume that leads to negative things," he said. It is "too early to judge."

Even so, President Obama's proposed fiscal 2010 budget created a glimmer of concern for the industry. Among other things, the Obama budget plan calls for about $13 billion over 10 years in new charges on oil and gas companies from the repeal of a tax deduction for domestic production.

"As you put more royalty and tax burdens on the industry, particularly a cyclical industry, you just have to be cognizant of the potential impact it has on investments," Odum said. "That's not something you can put real definition to, but I think it's a concern."

Acquisitions?
A deepening economic recession has beaten down share prices, creating speculation about acquisitions within the oil industry. Odum said Shell is "in the market looking like everyone else" to buy assets "if we see one that's the right fit." He said that "this type of dislocation in the market does create opportunities."

Oil companies could help limit the effects of the downturn if they were allowed to explore for oil and gas in areas that were off-limits until a congressional ban expired last year, Odum suggested. He cited the risks of failing to give oil companies more access.

"These projects take years to come online, so we create a situation in the future when we're even more short of energy," Odum said. "When you look at the U.S. in particular, the opportunity we have is to open some of these resources to development, to have that resource there for us a couple years into the future."

Shell is a member of U.S. Climate Action Partnership, a business group seeking to shape climate-change policy. While the company supports setting emissions limits and auctioning allowances that give companies the right to pollute up to the limit, or cap, other oil companies have different positions. Exxon Mobil Corp.'s (XOM) chief executive has called for a carbon tax. Chevron Corp. (CVX) wants to exempt transportation from a cap-and-trade system and use a different approach for the sector.

"I don't know if it really matters that there's a consensus around the industry because more than one system will work," Odum said.

United States Oil May Need an Endangered Listing
BNET, February 27, 2009; http://industry.bnet.com/energy/1000682/united-states-oil-may-need-an-endangered-listing/

By Chris Morrison

The Obama administration is signaling, from more than one direction, that it is not particularly sympathetic to the country's oil and gas industry.

The President's draft budget, first shown this week, proposes getting rid of $31.5 billion in tax breaks for the industry by lengthening amortization periods and getting rid of depletion allowances for small companies. It would also impose a new excise tax for production in the Gulf of Mexico, in the process removing some royalty waivers the industry previously enjoyed, and force use of leased land.

In the Dallas Morning News, the vice chairman of the Independent Petroleum Association of America, Bruce Vincent, is calling the proposals “a dagger in the heart of the oil and gas industry.”

He should be watching his other major organs, too. Beyond the budget, there’s more trouble for the oil in the Department of the Interior. Ken Salazar, the agency’s secretary, is withdrawing the Bush administration’s lease sale in Western states, where the majority of the country’s oil shale reserves are.

At the moment, few companies are terribly concerned about the oil shale — prices would have to rise significantly before the expensive process of straining oil from stone would seem interesting again. But in the longer term, it seemed entirely likely that prices would rise and the land would be developed.

The DOE hasn’t settled on new terms for a sale yet — Salazar couldn’t, or wouldn’t answer any questions about terms during a conference call reported by the Wall Street Journal. But it looks like at least some think the shale will never be developed, with one environmentalist from the National Resource Defense Council calling the move “an important step forward in protecting America’s western lands from oil shale development.” And along with the oil shale auctions, it looks like drilling on the Outer Continental Shelf will also be pushed back.

The one potential bright spot for the industry is in Alaska, where Sarah Palin is fighting to open ANWR to drilling. But it seems unlikely, with the public’s attention directed elsewhere, that she will gain much attention for her “drill, baby, drill” calls. Senator Lisa Murkowski has just proposed a different idea: Directional drilling, which will protect the land but bring up less oil. Such compromises will likely define what survives of the domestic oil and gas industry.

Obama seeks repeal of industry tax breaks, subsidies
Greenwire, February 26, 2009; http://www.eenews.net/Greenwire/2009/02/26/3/

Ben Geman

President Obama's budget proposal would repeal several oil industry tax incentives while imposing new taxes on Gulf of Mexico producers to close "loopholes" that have allowed companies to avoid royalty payments.

The overall budget eliminates $31.5 billion in "oil and gas company preferences" over a decade, according to a slender summary released by the White House this morning.

Many provisions are certain to prompt resistance from the oil industry and from Republican and Democratic lawmakers from oil-producing states. The plan drew a swift rebuke today from the oil industry's most powerful trade group, which called the measures a bad idea, especially during a recession.

"New taxes could mean fewer American jobs and less revenue at a time when we desperately need both," American Petroleum Institute President Jack Gerard said in a statement. "More taxes also could reduce our nation's energy security by discouraging new investment in domestic oil and natural gas production and refining capacity and pushing those investments -- and American jobs -- abroad."

But critics of petroleum tax and royalty policies say the industry has received too much support, even during periods of record-breaking profits, and that repealing tax breaks can help fund alternative energy programs.

The plan includes a "new excise tax on offshore oil and gas production in the Gulf of Mexico to close loopholes that have given oil companies excessive royalty relief." The new tax would begin in 2011, which the document says is "after the economy has had time to recover," and the budget assumes it would bring in nearly $5.3 billion over a decade.

The excise tax plan is an effort to ensure payment from deepwater leases issued in the late 1990s that allow royalty waivers -- also called "royalty relief" -- even when oil prices are high. The leases were drafted without the clauses that end the incentive when oil and gas prices exceed certain limits.

Senate Energy and Natural Resources Chairman Jeff Bingaman (D-N.M.) floated a new gulf excise tax as part of a major 2007 energy bill, but it was not ultimately included in the final bill (E&ENews PM, June 19, 2007.).

That 2007 plan would have allowed a credit against the tax for royalties paid, and the new proposal is modeled on that earlier effort, an Interior Department spokesman said today. "Producers that pay royalties would receive a credit, so this provision only impacts current royalty-free production," said spokesman Frank Quimby.

Elsewhere, the budget would repeal oil and gas companies' ability to claim a deduction on domestic manufacturing income, which would do away with an incentive that last year's Wall Street bailout bill had already frozen. Ending the incentive would bring in more than $13 billion in federal revenues over a decade, according to the document.

Other tax provisions include the repeal of expensing of intangible drilling costs and of the percentage depletion for oil and natural gas, among other measures, the document states.

'Use it or lose it'
In addition to the tax provisions, the budget proposal says Interior will ensure companies are "diligently" developing their existing leases or risk losing them, a concept that Democrats call "use it or lose it."

The plan says one step would be charging new fees on nonproducing Gulf of Mexico leases, which the outline claims would provide an incentive for companies to start producing from these leases or relinquish them.

The new fee on nonproducing leases would raise an estimated $1.2 billion total during the 2010-19 period, the document states.

The Obama administration is also proposing new user fees on oil companies for processing federal lands drilling permits and "increasing the return from oil and gas production on federal lands through administrative actions, such as reforming royalties and adjusting rates."

The budget also calls for ending federal funding for an ultra-deepwater oil and gas research and development program.

A Compromise Energy Policy Is Within Reach
WSJ, February 26, 2009; http://online.wsj.com/article/SB123561461091778261.html

Alternative fuels and carbon caps, yes – but we need more drilling too.

By TONY HAYWARD

Every U.S. president since Richard Nixon has expressed concern about America's growing dependence on imported oil. But effective action has proved elusive: Oil imports have more than doubled in the past 35 years -- from 30% at the time of the first oil shock in 1973 to around 65% today.

Yet the collapse in world energy demand and the fall of energy prices present a rare, once-in-a-generation opportunity. Congress and the Obama administration can work with energy producers to craft an energy policy that creates jobs, expands and diversifies the nation's energy supply, generates government revenue, and protects the environment.

Reaching those goals begins with rejecting the false choice between "drill, baby, drill" and a near-exclusive focus on alternative energies and conservation. An "all-of-the-above" approach holds far more promise.

President Barack Obama seems to recognize this. In his address to Congress this week, he spoke forthrightly about the need to tackle climate change -- while acknowledging the role of hydrocarbons in the overall energy mix, and emphasizing the need for energy security and efficiency. At BP we welcome his commitment to "invest $15 billion a year to develop technologies like wind power and solar power, advanced biofuels, clean coal and more efficient cars and trucks built right here in America."

BP has already demonstrated its commitment to a diverse energy portfolio. We're the largest producer of oil and gas in the U.S. We're also investing more than $8 billion over 10 years to develop solar, wind, hydrogen power and biofuels. We support energy conservation and efficiency, as well as addressing climate change via a cap-and-trade system to harness the power of the market to reduce CO_2 emissions.

But if the country is to gain full value from the technology, knowledge and expertise possessed by BP and its major competitors, I'd like to offer policy makers a few suggestions.

First, energy providers and governments must have confidence in one another. An adversarial stance does nothing to increase the supply of energy. Regulatory policies need to be sensible, stable and right the first time.

Second, energy security can only be built on a solid foundation of free markets and free trade. Two-thirds of the world's oil is traded across international borders. This huge and agile market makes it possible to respond quickly to supply disruptions, such as hurricanes or political unrest. Tariffs, heavy taxes, or restrictions on the free movement of petroleum products interfere with that process.

Third, transitional incentives are needed to make low-carbon energy competitive with other energy sources, and to kick-start technologies for large-scale carbon abatement, such as carbon capture and storage. But these incentives should taper away over time, so costs are driven down and the market can take over as quickly as possible.

Finally, America must stop looking to others for the oil it needs and actively develop its own hydrocarbon endowment. Even with the rapid growth of alternatives, fossil fuels will continue providing most of the energy Americans consume for decades into the future.

The search for new sources of domestic crude has been constrained by a lack of access to promising areas, notably the Outer Continental Shelf (OCS). Resource estimates for closed areas exceed 100 billion barrels of oil, with 30 billion recoverable with today's technology and at today's prices.

Opening up the OCS would enhance America's energy security. Moreover, a new study by ICF International estimates that it could create as many as 76,000 new jobs and generate a total of nearly $1.4 trillion in new government revenue by 2030.

No one in the energy business thinks America can drill its way to energy security. But a policy based exclusively or even primarily on conservation and efficiency is a recipe for ongoing scarcity and economic decline.

The prize is great and the time is right. When the world economy begins to recover -- and it will -- demand for energy will rise and the moment will likely have passed. We are extending our hand. We hope Washington policy makers will grasp it.

Big Oil execs lobby for new offshore drilling
San Francisco Chronicle, February 26, 2009; http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2009/02/25/MN8L164V83.DTL

Jennifer A. Dlouhy

Top executives from some of the nation's biggest oil companies pleaded with Congress on Wednesday to expand offshore drilling to help wean the United States off foreign energy sources and spur new jobs.

Gary Luquette, the president of Chevron North America Exploration and Production Co., said new offshore drilling is essential to meet growing energy demands in the United States.

"Today's decisions should help us prepare for - not jeopardize - tomorrow's economic growth," Luquette told the House Natural Resources Committee. "To prepare for tomorrow's economic growth and meet our nation's increasing long-term energy demand, we need ... more conservation, we need more alternatives and renewables, and we need more conventional oil and natural gas. We need more of all our resources."

Two long-standing bans that blocked drilling on most of the Outer Continental Shelf were lifted last year, giving energy companies their best chance in decades at trying to tap pockets of oil and gas beneath Atlantic and Pacific waters.

But Congress is mulling whether to make some areas off-limits again. Even if lawmakers don't impose new drilling bans, a final decision on issuing new offshore leases would rest with the Obama administration.

Interior Secretary Ken Salazar recently delayed a Bush administration proposal to offer new leases for offshore drilling along much of the U.S. shoreline and signaled that any surviving plan would be more limited.

The hearing before the House panel Wednesday was the last of three dedicated to the issue - the first two focused on the views of environmental advocates and state leaders.

A common refrain from the energy executives was that oil and natural gas are needed even as the federal government and private companies invest in new alternative fuels and technology.

"We must be realistic," said Marvin Odum, president of Shell Oil Co. "The transition ... will take time. Even under the most optimistic of circumstances, the reality is that fossil fuels will be a major source of energy for the coming decades."

The corporate leaders touted the potential energy resources in unexplored parts of the Outer Continental Shelf. The Interior Department has estimated that 17.8 billion barrels of oil and 76 trillion cubic feet of natural gas could be found in areas where drilling has been off limits.

Critics have said it could take years for that untapped oil and gas to start flowing because there is a long chain of geologic studies and construction between the time leases are awarded until the time that production starts.

Rep. Nick Rahall, D-W.V., the committee's chairman, said "the amount of additional oil that we could drill offshore is a drop in the bucket of what we need to sustain our economy and meet our energy needs."

But Luquette projected that production in new areas of the Outer Continental Shelf could add 1 million barrels of oil per day to the nation's energy portfolio by 2025.

Several Democrats, including Reps. Jay Inslee of Washington and Lois Capps of Santa Barbara, pressed the business leaders to provide Congress an account of their spending on renewable energy research and production.

Rep. John Sarbanes, D-Md., said he was "not impressed" with the varying estimates of industry investments in alternative fuels.

"It's not a lot of money compared to, for example, the profits that you made in a two-year period" and doesn't represent "an aggressive transition to a new, more diversified portfolio," Sarbanes said.

Cape Wind hit with another lawsuit
Cape Cod Times, February 25, 2009;
http://www.capecodonline.com/apps/pbcs.dll/article?AID=/20090225/NEWS11/90225011/-1/NEWSMAP

By Patrick Cassidy

Opponents of the proposed Nantucket Sound wind farm have filed a law suit challenging the Massachusetts Office of Coastal Zone Management’s finding that the project meets state environmental requirements for activities in federal waters.

The state agency issued a pair of determinations Jan. 23 that the proposal by Cape Wind Associates, LLC, to build 130 wind turbines on Horseshoe Shoal in the sound is consistent with its policies that seek to balance human activities with the protection of coastal and marine resources.

The suit, filed by the anti-Cape Wind group, Alliance to Protect Nantucket Sound on Feb. 20 in Barnstable Superior Court, contends the agency’s determination violates the law, according to a press release issued today by the Alliance.

“In its decision on Cape Wind’s impacts, CZM has clearly violated the law and abandoned its own mission to protect our coastal environment,” Glenn Wattley, alliance president and CEO, said in a prepared statement.

CZM failed to consult with the Cape Cod Commission on its decision as required by law, alliance executive director Audra Parker said in a telephone interview. The agency also issued its finding prior to the issuance of all other permits required for the project, another violation of the law, Parker said.

The Cape Cod Commission issued a procedural denial of the project in October 2007, which is currently the subject of a review by the state's Energy Facilities Siting Board. The siting board could choose to overturn the commission decision and it is also considering whether to issue a "super permit" for Cape Wind that would encompass most other local and state permits.

There are other "substantive reasons" CZM's action violates the agency's own policies, Parker said.

These include inconsistencies with energy, protected area, water quality and ports policies, according to the alliance press release.

The town of Barnstable filed a similar law suit on Friday, according to town attorney Charlie McLaughlin.

The federal agency responsible for the review of Cape Wind, U.S. Minerals Management Service or MMS, released a favorable environmental report on the project Jan. 16 but a review of the impact of the project on tribal and historic sites must be complete before a final approval of any federal lease can be issued. Additionally, the Federal Aviation Administration has called for more studies of the projects impact on aviation radar and safety.

Cape Wind first proposed building a wind farm in the sound in 2001. Since that time opponents have mounted a number of law suits and political challenges to the project.

More legal action is expected after MMS makes its decision on whether to issue Cape Wind a lease for the 25 square miles it wants to use in the sound.

Shell Oil chief complains of 'clumsy' government
Anchorage Daily News, February 25, 2009; http://www.adn.com/usbusiness/story/702546.html

By ERIKA BOLSTAD

Shell Oil Co.'s chief executive for North America, Marvin Odum, complained Wednesday that regulatory red tape has slowed the company's $2 billion investment in offshore leases in Alaska.

Coordination on the part of government agencies overseeing offshore drilling has been "clumsy" in Alaska, Odum suggested after his testimony to a House of Representatives panel examining issues related to drilling in the outer continental shelf. When new areas are open to exploration, the federal government needs to make sure the regulatory agencies have adequate resources to handle the demands of the companies that have been awarded the leases, Odum said.

"Getting that done, the permits coordinated, different facets of government working together, I think has been a little bit clumsy and challenging as we enter a new area. So mine is simply a flag that says, here's an opportunity to learn from what's happened in just the last couple of years. In the spirit of good government, let's look for a way to do it even more efficiently as we move into new areas."

"It's not a streamlining issue, it's more all the agencies of government working in a coordinated fashion," Odum added. "Some of it's taken longer than it might have otherwise, and I just see opportunities. It's the same look I take in my own company all the time, which is: How do I make us more effective and efficient, the way we work as a company?"

Shell returned to Alaska in 2005, when the company successfully bid on offshore leases for sale by the federal Minerals Management Service. Since then, the company has spent about $2 billion on leases in the Beaufort and Chuckchi seas, Odum said. But in that time, the company has faced regulatory and legal hurdles and so far hasn't drilled a single exploratory well, Odum said.

He suggested in written testimony submitted to the House Committee on Natural Resources that Congress consider establishing a pilot office in Alaska to coordinate the regulatory activities of all the federal agencies that address energy in Alaska. They can "share resources and work together on studies, permits and other activities regarding these projects," Odum suggested.

David Smith, a spokesman for the Minerals Management Service, which is the main Interior Department agency overseeing offshore drilling, said he had no direct comment on Odum's remarks. Smith did say, however, that there are "a large number of permits that companies must get through every phase of energy exploration and development."

"The sheer number of permits can be challenging," he said. "It's very important when we're working with other government agencies, one of the things we really have to look at is environmental protection. It's a balance we certainly try to achieve."

Earlier this month, Interior Secretary Ken Salazar slowed down a last-minute Bush administration plan to expand offshore drilling. That topic also was raised at Wednesday's hearing. Salazar slowed down by six months any oil and gas leasing in the nation's outer continental shelf and called for an additional 180 days of comment on the existing five-year drilling plan.

At the hearing, the top Republican on the committee, Rep. Doc Hastings, R-Wash., said he considered Salazar's slowdown the equivalent of a ban on drilling.

"Make no mistake, this action has precisely the same result as a moratorium," he said. "So let us call it what it truly is: a moratorium, not a delay."

But the chairman of the House Resources Committee, Rep. Nick Rahall, D-W.Va., said that offshore development is a "complex, multisided issue." That's why they've been holding a series of hearings on the various aspects of offshore drilling, Rahall said.

"I am not opposed to new drilling," he said, but added that "the American people deserve to understand the risks and benefits that expanded drilling on the outer continental shelf will bring."

Rep. Don Young, R-Alaska, one of the senior members of the committee, was not at the Wednesday's hearing. Later, Young said he saw no need to attend the meeting.

"What would we learn in a hearing like that other than we ought to be drilling for oil?" Young said.

Congress has a role in setting protections – Rahall
E&E News, February 25, 2009; http://www.eenews.net/eenewspm/2009/02/25/5

Ben Geman

Congress should play a role in setting aside areas from offshore oil and gas drilling, even though Democrats are not seeking to reimpose blanket bans that expired last year, the chairman of the House Natural Resources Committee said today.

"There will be areas that will be protected, I am sure, that are environmentally sensitive, that may be necessary for national security training purposes and/or other reasons, and of course, marine sanctuaries," Rep. Nick Rahall (D-W.Va.) said in an interview.

The Natural Resources Committee held the last of three full committee hearings on outer continental shelf (OCS) policy today. Rahall said new OCS legislation was not definite but made clear he was eyeing a committee addition to a broader energy bill. "I would envision ... that in our efforts, as a Congress as a whole, to draft a comprehensive energy policy, that there will be aspects of that comprehensive bill that will come before our committee, and so we want to be prepared to offer out portion that comes under our jurisdiction," he said.

Rahall said the bill would also aim to reform Interior Department royalty collections, noting that he wants to "clean up some of that mess and make sure all the revenue out there is indeed collected." Rahall has long been trying to make changes to Interior's troubled royalty programs, which have been criticized by lawmakers and the department's inspector general. But a series of royalty provisions that his committee authored were dropped from a major 2007 energy bill.

The chairman has also noted that he does not oppose some widening of offshore drilling.

Oil execs plead for more exploration
A panel of oil industry executives today again pressed their case for substantially expanding offshore leasing. They argued that it could expand domestic energy security because fossil fuels will continue to be the major energy sources for decades to come and that industry is capable of safely producing in coastal areas.

Environmental groups oppose expanded drilling, arguing that it presents unacceptable ecological risks and that "industrializing" coastal areas is harmful even without accidental spills.

The press for more oil development comes a day after President Obama delivered his first speech to a joint session of Congress, in which he repeatedly emphasized administration support for vastly expanding renewable energy development and energy efficiency.

But Shell Oil Co. President Marvin Odum told reporters the administration appears to support a broader view, as well. "I know as they search for their positions and start to define their positions, I hear a realistic view of what does it take to supply energy to the U.S., what are the various components of that," he said.

He broke with some other oil industry officials in declining to attack Interior Secretary Ken Salazar's recent decision to expand the comment period by a half-year on a Bush administration plan to vastly expand OCS leasing. That plan includes the Atlantic and Pacific coasts, as well as more eastern Gulf of Mexico areas if a current law restricting leasing there is repealed.

Asked if this was a de facto reinstatement of the OCS moratoria, as committee ranking member Doc Hastings (R-Wash.) alleged, Odum replied, "I do worry about delay, but I think it is way too early to make that call, personally."

Odum added, "The secretary has come out and said he wants to take a comprehensive look at what it all means and what the impact is. That is a perfectly reasonable statement, I think."

Obama has indicated that he is open to some expansion of offshore leasing as part of a comprehensive energy policy. But Salazar, in announcing the extended comment period on the Bush plan, also decried what he called the Bush administration's "headlong rush" to drill (E&ENews PM, Feb. 10).

California US House members offer contrasting OCS proposals
Oil and Gas Journal, February 25, 2009;
http://www.ogj.com/display_article/354429/7/ONART/none/GenIn/1/California-US-House-members-offer-contrasting-OCS-proposals/

Nick Snow

WASHINGTON, DC, Feb. 25 -- Two US House members from California presented dramatically different viewpoints as the Natural Resources Committee focused on state perspectives in its second 2009 Outer Continental Shelf hearing on Feb. 24.

Democrat Sam Farr, whose district includes the Monterey Peninsula, said moratoriums should be reinstated while Congress develops a comprehensive ocean resources management strategy. Republican Dana Rohrabacher, whose district farther south includes parts of Long Beach, said domestic offshore energy resources could significantly contribute to a US economic recovery.

Their remarks opened the committee's second of three scheduled hearings on the OCS. The first on Feb. 11 heard from witnesses representing environmental organizations and coastal tourism groups. A final hearing on Feb. 25 will present the oil and gas industry's perspective.

Natural Resources Committee Chairman Nick J. Rahall (D-W.Va.) said in his opening statement that the hearings were designed to give all sides a chance to present their viewpoints as the committee begins working to determine the best way to accommodate oil and gas drilling while ensuring that offshore resources are managed in an environmentally and fiscally responsible manner.

"Our coastal states are critical to this discussion. They are literally on the front lines of the offshore drilling debate and their needs and challenges are vitally important considerations for us all," he maintained.

"As I stressed at our last hearing, I am not opposed to drilling. I understand the benefits of domestic oil and gas production. But I am also aware of the risks. This ongoing discussion is designed to examine the trade-offs that would be involved in expanding offshore oil and gas drilling, and I look forward to working with members on both sides of the aisle as we determine the best way to move forward," Rahall continued.

Oceans greatest resource

Farr said that since the waters off his district's coast are protected by legislation authorizing the Monterey Bay National Marine Sanctuary, he was testifying on behalf of the oceans, "perhaps the greatest natural resource on earth, and one that we all share." He said that while offshore oil and gas technology may have improved, it still poses risks from exploration, extraction, and transportation.

"Further, the debate on fossil fuel extraction seems almost archaic given our understanding of the adverse effects of their consumption on our atmosphere. Granted, our economy is still oil-addicted, but if alternative, renewable energy sources received the same level of investment as fossil fuel-based sources, surely we would make more substantial progress in weaning our oil dependency," Farr continued.

"If the US goal of reducing carbon emissions is to be realized, we might as well acquaint ourselves with the idea that drilling is not the solution, especially when clean, renewable energy sources are within our grasp," he said.

Rohrabacher disagreed that offshore oil and gas activity poses unacceptable risks. Technology has improved dramatically since the 1969 crude oil spill in the Santa Barbara Channel, he said.

"Even with the old technology, the chance of an oil spill was greater from a tanker than from offshore drilling. The more environmental radicals say we can't drill, the more oil we've had to 'drill' by tanker. They've ironically made oil spills more likely. Furthermore, by making us more dependent on foreign production, which is not encumbered by the same standards, the outcome has been a total disservice for environmental concerns," he declared.

Stuck in the 1960s

The same environmental activists who oppose offshore oil and gas activity also are fighting alternative energy development on the OCS and in the southwestern US deserts, according to Rohrabacher. "I think activists control policy in America. Many of them are very sincere, but they're stuck in the '60s. We have technology now that is better. We haven't had one new hydroelectric dam, nuclear power plant, or refinery in 30 years. That's been at least $1 trillion out of our economy that would have been there otherwise. We're in serious times now, and people need to look at all the options," he said.

The two House members agreed that federal revenue from offshore energy production should be shared with coastal states, but they disagreed on the way it should be handled. Farr said that a portion should go directly into an ocean trust fund based in Washington that would "support the focused efforts of coastal states, territories, and agencies in addressing the critical ocean and coastal science, management, and protection needs of our nation and is essential to implement the many other recommendations of the national ocean commissions." Rohrabacher said the money should go directly to coastal states and communities which feel the impacts of offshore energy development.

Officials from five states also presented widely varying views. Ted Diers, the coastal program manager in New Hampshire's Department of Environmental Services, who also chairs the Coastal States Organization, said it is essential that any offshore energy plan that is formulated retain provisions that protect state sovereignty, include both renewable and traditional energy sources, and direct portions of federal revenue to both coastal states and to an ocean management research fund.

Robert G. Marvinney, director of Maine's geological survey, said the state has the highest per capita dependence on No. 2 heating oil of any in the nation. "The past several winters have been particularly difficult for low and middle-income and elderly [residents] who are making very difficult choices between home heating and other vital expenditures. Energy costs have grown from 5% to 20% of a typical Maine family's budget in just the past 10 years," he told the committee.

The state has responded by focusing on renewable and alternative energy sources, including cellulosic ethanol from its extensive forests and potential wind and tidal power in the Gulf of Maine, Marvinney said. The area immediately off its coast is geologically unsuitable for oil and gas development, but the Georges Bank fishing area farther out has potential and was leased during the 1970s, he continued. Any new oil and gas activity there will need to recognize the area's vital role as a commercial fishing resource, he said.

Rig construction

"The proximity of the Georges Bank is such that any support base for exploration and development activities there would likely be situated in Massachusetts or Rhode Island. That said, Maine has a track record of benefiting from petroleum exploration. One Maine corporation recently constructed two semisubmersible platforms for petroleum development; [its] work would certainly be enhanced by Georges Bank development. However, this corporation has also demonstrated that [it] can compete globally since those two rigs were deployed in waters off Brazil," Marvinney said in his written testimony.

Frank W. Wagner, a Virginia state senator, noted that the Old Dominion has taken the lead in asking the federal government to resume leasing off the East Coast. The state's official policy is to request that the federal government allow for exploration of natural gas only and no closer than 50 miles from the shoreline, he said. "However, there are many in Virginia, including myself that, consistent with Navy training requirements and environmental review, would take a much broader approach," he said, referring to the concentration of military bases around Norfolk.

"We in Virginia were pushing this policy long before $4/gal gasoline and prior to the current large-scale recession in which we find ourselves. During peak energy prices last summer, it was estimated that this nation was spending nearly $700 billion/year importing hydrocarbon energy from outside the borders of this country. This dollar figure is surprisingly similar to the [Troubled Assets Relief Program] package and the economic stimulus package that this Congress passed within the last few months," Wagner said.

Mike Chrisman, California's natural resources secretary, said that while California has a long history of offshore oil and gas development, the 1969 Santa Barbara Channel spill had major ramifications for both the state and the nation. "While the risks of such an event can be reduced today because of new technologies, for California the adverse environmental and economic impacts of new oil and gas leasing and development off our coast (from oil spills, air quality, water quality, and visual impacts) far outweigh the benefits generated from these activities," he said.

The state and its residents have become leaders in energy efficiency and the development of renewable energy, Chrisman told the committee. "California uses less electricity per person than any other state in the nation. Indeed, over the last 25 years, California's per capita electricity use has remained nearly flat while nationwide demand has increased 50%. This has occurred despite the fact that homes are bigger and our population tends to have more appliances, televisions and other electronic equipment. Whether we are talking about electricity, natural gas, or transportation fuels, gains in energy efficiency can temper energy demand, hold down consumer prices, and reduce the environmental impact associated with traditional energy sources," he said.

Other businesses thrive

Garret Graves, director of Louisiana's Office of Coastal Activities, said other businesses in the state have benefited from the oil and gas exploration and production off its coast. "After several decades of production, we're one of the top tourist destinations in the world. More than 24 million tourists visited our state last year. Tourism in the New Orleans area, including this week's Mardis Gras celebration, provides a $5 billion economic impact yearly. It's one of the state's largest economic sectors and generates an estimated $10 billion annually," he said.

In his written testimony, Graves noted that MMS reported that spills represent less than one thousandth of 1% of the more than 4.7 billion bbl of oil which have been produced since 1980. The DOI agency also found that there has not been an oil spill of more than 1,000 bbl in the last 15 years from a US offshore platform, and that during Hurricanes Katrina and Rita in 2005, there were no identified environmental impacts from any OCS spills.

"As we look at our economic challenges, we should continue to look at oil and gas as a source of our energy. We have extraordinary resources out in the ocean, which could be recovered, and significant revenue that could be generated. I urge the committee to look at all the tools that are available and not say no to offshore production," he told the committee.

Several committee members expressed their own views. "I agree with Mr. Farr that we should have smart use of the oceans. There are critical habitats there. But as I've traveled my district in East Texas, farmers tell me they looked for a Prius tractor and couldn't find one. They also couldn't afford diesel fuel and gasoline," said Louie Gohmert (R-Tex.).

"Listening to the discussion here, we seem to agree on some basic concepts. We need a comprehensive energy policy. We need to be less reliant on foreign sources. Where we disagree is how we develop that energy policy. No one has developed a credible road map using all the tools in our energy toolbox because they try to eliminate certain options such as leasing more federal lands to generate revenues. I think the American public is frustrated that we can't do this," observed Jim Costa (D-Calif.), who chairs the committee's Energy and Mineral Resources subcommittee.

Energy giants call for expanded offshore drilling
Houston Chronicle, February 24, 2009; http://www.chron.com/disp/story.mpl/headline/biz/6279687.html

BY Jennifer A. Dlouhy

WASHINGTON — Major oil and gas company executives on Tuesday pressed Congress and the Obama administration to expand drilling off the nation's coasts, even as the U.S. cultivates renewable and alternative energy sources.

"While we are busy developing alternative energy and doing research to see what might be out there in the future … this administration needs to do what it can to nurture and develop our historic sources" of energy, said Larry Nichols, the chairman and CEO of Devon Energy Corp., an Oklahoma City-based exploration and production company.

Marvin Odum, the president of Shell Oil Co., warned against assuming "there's somehow a trade-off between additional oil and gas development and the development of renewable energy."

Odum said "oil and gas is critical to this transition" to new energy sources.

Nichols and Odum's comments, made in a call with reporters, coincided with President Barack Obama's renewed push to wean the nation off foreign oil. They came a day before the pair is scheduled to join other industry leaders in testifying about drilling in the Outer Continental Shelf.

Also scheduled to testify today at a House Natural Resources Committee hearing are Lamar McKay, chairman of BP America, Tim Cejka, president of Exxon Mobil Exploration Co., and Gary Luquette, president of Chevron North America Exploration and Production Corp.

Representatives of several coastal states told a congressional hearing Tuesday that states' views must be taken into account before the federal government allows oil drilling in federal offshore waters. And some states made clear they want no drilling, period.

"There should be no ambiguity about where California stands on the issue of new offshore oil and gas leasing off California. We oppose it," said Mike Chrisman, the state's secretary for natural resources to the House Natural Resources Committee.

Chrisman said California Gov. Arnold Schwarzenegger and other state officials were prepared to use permitting authority coastal management programs to thwart any new drilling plans.

Ted Diers, chairman of the Coastal States Organization, which represents governors of coastal states, said any offshore energy development must have states as full partners with revenues being shared with the states.

The Dangers of 'Cap and Trade'
NYT, February 24, 2009; http://www.nytimes.com/2009/02/22/business/22every.html?ref=business

By BEN STEIN

WHENEVER I pull up to my neighborhood service station in Rancho Mirage, Calif., or anywhere else lately, I have a strange feeling. Because gasoline is so incredibly cheaper than it was just eight months ago, I almost feel as if I am getting something free.

I keep wondering when someone in government will award some kind of stimulus prize to the oil companies for that. After all, by cutting the price of gasoline and other fuels by roughly half, the oil companies are giving consumers hundreds of billions of dollars in new purchasing power for other goods and services. Isn't that worthy of praise?

What's that, you say? It isn't the oil companies? It's just the free market correcting itself after a huge oil price bubble last year? Well, I agree. But I have a lot of angry e-mail burned into my brain from readers insisting that those high prices were an oil-company conspiracy.

So, are the lower prices now a conspiracy to help the consumer? If that's silly — and it is — then let's go back to the free-market explanation. It might actually work. The free market can make us crazy, but it can also explain a lot.

Still, when I go to my local gas station, I am amazed that there is any gasoline there at all. Yes, I can see how the big oil companies happily made gasoline when oil was $140 a barrel. But how can they do it when oil is in the $30s? That takes some fancy planning.

How do the oil companies manage to keep going when the price of their basic source product changes so much? Again, that takes fancy planning.

Such planning has allowed this country to get by without major supply disruptions since the shah of Iran was overthrown. But the situation is about to become much trickier, as we confront the need to reduce carbon emissions on the way to a cleaner environment. Indeed, President Obama's Environmental Protection Agency now seems likely to act within months to begin restraints on carbon dioxide. This move had been resisted by the previous administration.

Obviously, oil and gasoline are a big part of the emissions problem, and something needs to be done. I seem to have trouble breathing on too many days. Part of the solution involves more efficient cars and furnaces, and better technology at all levels. But what about a direct financial restraint on burning hydrocarbons? Might that not reduce hydrocarbon emissions, too? It is hard to believe that it wouldn't.

Two main ways to address the issue are under discussion. One would involve a nationwide system of credits for carbon burning, with a total cap. The credits would be traded in national and maybe world markets. Entities that emit more carbon gases would have to pay more to buy these credits, and those who saved carbon would pay less and be able to sell credits to heavier users.

The other idea is a direct tax on carbon emissions of a stable amount. The proceeds might be refunded in whole or in part to energy producers to help with other goals, such as producing cleaner fuels.

Both ideas have merit, but there is a tricky little history to "cap and trade," which seems to be President Obama's favored approach. Because the credits would be traded on an exchange, or somewhere else, their prices would fluctuate. They could even fluctuate wildly, as prices of traded items often do. (See the stock, bond and commodity markets if you're looking for examples.)

The European system of cap and trade has seen large fluctuations. Right now, because of the recession in European manufacturing, the cost of these carbon credits has fallen fantastically, rendering the cost of carbon emissions low. That doesn't do much for reducing emissions.

Why add another element of uncertainty to energy production, especially if the goal of suppressing carbon-based fuel burning can be accomplished by another means? Energy companies have enough problems as it is — including reduced supplies, political risks and wildly changing prices for raw materials.

Of course, the new system would be a great benefit to the people who traded the credits. But how about the rest of us? Haven't we just had a big lesson in what happens when we put traders ahead of producers and consumers? Have we forgotten that lesson already?

Why not do what governments usually do to reduce consumption — namely, impose a tax that punishes the production of carbon emissions? That would also be much less sensitive to manipulation by speculators — and the types of extremes that have led to our country's recent undoing.

It seems a more direct and simpler way to go, and would help ensure that gasoline will always be there when we need it.

Va. governor seeks to delay 2011 lease sale
E&E News, February 24, 2009; http://www.eenews.net/eenewspm/2009/02/24/7

Ben Geman

Virginia Gov. Timothy Kaine (D) is asking the Obama administration to delay the 2011 sale of oil and gas leases 50 miles off the state's coast, citing conflicts with state policy.

"Virginia's offshore energy policies as enacted in state law ... support federal efforts to determine the extent of natural gas resources 50 miles or more off the Atlantic shoreline, including appropriate federal funding for such an investigation," Kaine wrote in a Feb. 19 letter to Interior Secretary Ken Salazar. "Our policies do not support exploration for oil or production of gas or oil, which would be allowed under Lease Sale 220."

The Virginia lease sale is part of Interior's 2007-12 outer continental shelf leasing plan.

In its final days, the Bush administration proposed a far more expansive 2010-15 offshore leasing program that includes the Virginia sale and several others along the Atlantic and Pacific coasts, areas that had been under leasing bans that lapsed last year.

But Salazar this month delayed what he derided as the Bush administration's "headlong rush to drill." He extended the comment period on the new draft plan by a half-year and announced new studies to gather information about potential resources and impacts of offshore drilling (E&ENews PM, Feb. 10).

While Kaine urged caution, state Sen. Frank Wagner (R), who represents a coastal district, supported expanded U.S. offshore drilling before the House Natural Resources Committee today.

In testimony submitted to the committee, he said the Virginia sale should be kept on schedule and that states with production in federal waters off their shores should share in the revenue. Revenue sharing was provided to four Gulf of Mexico states -- Louisiana, Texas, Mississippi and Alabama -- in a 2006 law.

The committee held the second in a set of three hearings on offshore drilling today. A slate of oil industry executives -- who will push for expanded production -- is scheduled to appear tomorrow. The panel heard both pro- and anti-drilling views today, while a session two weeks ago featured environmentalists who oppose coastal production.

Low oil prices seen stalling clean energy
Washington Times, February 24, 2009; http://www.washingtontimes.com/news/2009/feb/24/low-oil-prices-seen-stalling-clean-energy/

Tom LoBianco

Former President Bill Clinton and former Vice President Al Gore warned Monday against letting low oil prices lure consumers back into gas-guzzling cars, thereby stalling efforts to develop clean energy sources.

Mr. Gore warned that the country's "political will" to invest in renewable energy projects and break its dependence on oil has waxed and waned as the price of oil has fluctuated over the decades.

"We need to get the market to work for us by putting a price on carbon," Mr. Gore said.

Mr. Clinton said that his home state of Arkansas' attempts to cut back on using fossil fuels routinely have been stymied when the price of oil dropped.

"Every time oil dropped, people said give me my Hummer back," the former president said.

The price of oil peaked at around $147 a barrel last year, pushing the price of a gallon of gas to more than $4 across the nation, but fell sharply as the global economy tanked dropping to just more than $30 a barrel.

Lawmakers, environmentalists and energy experts have generally stated that the volatility of oil prices has made it hard to develop a national energy strategy which reduces carbon-dioxide emissions and fortifies national security.

Some energy analysts have proposed establishing a price floor for oil through a government tax, but the concept has been given little credence on Capitol Hill. President Obama's transportation secretary, Ray LaHood, floated the idea of changing how the gas tax was administered last week, but was quickly shot down by the White House.

Mr. Clinton and Mr. Gore talked during an expansive conference hosted by the Center for American Progress Action Fund and focused on how to reduce the nation's dependence on oil, invest in renewable energy sources and build out an expansive "smart" energy grid.

While there's broad support in Washington for cutting back the amount of oil the nation imports, lawmakers have split over whether to allow expanded drilling for oil at home.

The Obama administration put the brakes on a last-minute Bush administration policy which would have allowed for expansive drilling for oil and natural gas offshore, and canceled leases to allow for drilling in Utah. The administration has said that domestic oil production will be part of a broader energy plan to wean the nation off of foreign oil.

Environmentalists have asked Congress to reinstate a ban on offshore drilling that lawmakers allowed to lapse last year, but House Natural Resources Committee Chairman Nick J. Rahall II, West Virginia Democrat, has said that it is unlikely to happen.

The committee plans to examine offshore drilling this week.

Salazar mulls MMS's role as House hearings continue
E&E Daily, February 23, 2009; http://www.eenews.net/EEDaily/2009/02/23/4/

Ben Geman, E&E senior reporter
Congress should consider clarifying the scope of the Minerals Management Service, the federal agency that oversees energy development in federal waters, Interior Secretary Ken Salazar said yesterday.

Salazar's comments come ahead of two House Natural Resources Committee hearings on offshore oil-and-gas drilling this week.

"I do think it is a good idea to look comprehensively at the OCS [outer continental shelf] and to work with the Congress to try to come up with organic legislation that will define what the authorities are," he told reporters when asked whether he needs more authority from Congress to implement his agenda for the OCS.

MMS was established by orders of the Interior secretary in the early 1980s.

Salazar also, however, suggested that changes could be made administratively. "At a minimum what needs to be done is that those orders need to be updated in order to give the MMS clear direction on what it ought to be doing with energy development and that also includes renewable energy development," he added.

The new Interior secretary put the issue in the context of his review of the sprawling department he has inherited. "As we look at that and as we study it there may be some other things and reorganization within the department that we will look at, but I have not reached any definite conclusions on it," he said, speaking to reporters after meeting with Western state governors in Washington, D.C.

During the Bush administration, MMS suffered through ethics scandals and allegations that it was not ensuring full industry payment of royalties from oil and gas produced on federal lands and waters.

At the same time, the 2005 Energy Policy Act put the agency in charge of alternative energy development on the OCS. The Bush administration proposed, but never finished, rules to implement that power. Salazar said he wants to move quickly in this area.

House hearings

Salazar's comments come as the House Natural Resources Committee holds two more oversight hearings on the OCS this week aimed at gathering the views of states -- both pro-drilling and anti-drilling -- and the oil industry.

Tomorrow's session will feature testimony from officials from several coastal states, including California and Louisiana. Wednesday's hearing will feature several industry oil industry executives bringing their case for wider offshore leasing back to Capitol Hill.

Leasing bans that cover most coastal areas expired last year. Chairman Nick Rahall (D-W.Va.) recently said efforts to reimpose the bans outright are not in the cards. But he also said he is planning legislation that will address drilling issues as part of a broader energy package (E&ENews PM, Feb. 12.)

And as the hearings continue, it remains unclear what policies and leasing decisions Salazar may undertake using his administrative power and what will be included in congressional plans.

"It may end up in legislation; we have had conversation with both the House and the Senate about what they are doing with these hearings," Salazar said. "I think they are gathering information in the same way that we are gathering information within the executive branch.

"At the end of the day there are aspects of this that may be included in stand-alone legislation, or perhaps in comprehensive energy legislation that is considered by the Congress," he added.

Only leasing can reveal resource potential -- oil executive

Executives with BP PLC, Exxon Mobil Corp. and other oil companies are expected to lobby for increased production on the OCS.

"If we are serious about reducing our dependence on foreign oil, that surely must mean we want to develop our own energy resources in this country, which has to include the offshore," Larry Nichols, CEO of Devon Energy, told E&E.

Devon is the largest U.S. independent oil and gas producer, and Nichols is also chairman of the American Petroleum Institute, a major industry lobbying group.

Nichols attacked the idea that lawmakers should fund studies and inventories of the potential of areas that have been under the moratoria for decades. Current knowledge is based on work done in the 1960s and early 1970s, he said, when exploration technologies were far more rudimentary.

The Interior Department has estimated that areas which have been under leasing bans may contain 18 billion barrels of oil and 76 trillion cubic feet of natural gas. But advocates of expanded drilling say the numbers are probably on the low side because they are not based on newer exploration technologies.

Salazar, in delaying a Bush administration proposal to sell leases in areas that had been off-limits, also said the U.S. Geological Survey should quickly assemble available information about offshore resources. Based on the report, Interior would then determine what areas need more information and create a plan for gathering it.

Elsewhere, Senate Energy and Natural Resources Chairman Jeff Bingaman (D-N.M.) has said a key step toward resolving questions about the future of OCS drilling policy should be funding a comprehensive inventory.

But Nichols called this "nothing more than a delaying technique." He said federal officials lack funding and expertise, and industry would not want to do it if there was uncertainty about whether the areas off the East and West coasts would ever be made available.

"Industry would not pay for it, why would you do seismic [surveys] on something that the government is not going to lease to you?" Nichols said. "The only way to move forward on a meaningful effort is to open the areas up for leasing."

States' place at the table is essential, coastal group says
Ted Diers, the manager of New Hampshire's coastal program and chairman of the Coastal States Organization, is slated to appear at tomorrow's hearing on state views.

Kristen Fletcher, the executive director of the group, said Diers will stress that state views and concerns merit strong consideration when federal officials make decisions about adjoining federal waters. "We want to get the message across that maintaining consistency reviews [under the Coastal Zone Management Act] on the part of the states for any type of offshore oil and gas drilling is essential, especially now that the moratoria is lifted," she said.

Consistency reviews under the coastal law provide a venue for states to try and address their concerns about federal actions regarding shipping, energy and other issues. The group is not coming out in favor or against OCS drilling overall.

The coastal states group also supports the establishment of an ocean trust fund to support ocean and coastal management. Revenues from offshore energy uses should help provide money for the trust fund, Fletcher said.

Tuesday schedule: The hearing on various state views at 10 a.m. in 1324 Longworth.

Witnesses: Rep. Sam Farr (D-Calif.); Mike Chrisman, secretary, California Natural Resources Agency; Robert Marvinney, state geologist and director, Maine Geological Survey; Frank Wagner, Virginia state senator; Garret Graves, director, Louisiana Governor's Office of Coastal Activities; and Ted Diers, chairman, Coastal States Organization.

Wednesday schedule: The hearing on industry views is at 10 a.m. in 1324 Longworth.

Witnesses: Marvin Odum, president, Shell Oil Co.; Lamar McKay, chairman and president, BP America Inc.; Larry Nichols, chairman and CEO, Devon Energy Corp.; Tim Cejka, president, Exxon Mobil Exploration Co.; Gary Luquette, president, Chevron North America Exploration and Production Co.; Karen Harbert, president and CEO, Institute for 21st Century Energy, U.S. Chamber of Commerce.

New offshore energy to boost US govt revenue-study
Reuters, February 23, 2009; http://www.reuters.com/article/bondsNews/idUSN2027942920090223

By Ayesha Rascoe

WASHINGTON, Feb 23 (Reuters) - Expanding energy exploration and production to U.S. offshore areas that were off limits until recently could result in more than a trillion dollar goverment windfall and millions of new jobs, a report said on Monday.

Oil and natural gas development in newly opened offshore areas will generate $1.7 trillion in federal tax revenue and almost $600 million in state and local taxes throughout the life span of the new fields, according to the study conducted by the American Energy Alliance.

The increased offshore energy production would also support 1.2 million jobs annually.

"Those benefits would be realized without any increase in direct government spending," the report said. "Rather, increased OCS output would refill national, state, and local government coffers--currently depleted by real estate and credit crises--with additional government outlays."

The American Energy Alliance advocates for free-market energy and environmental policies.

A longstanding moratorium on offshore drilling in most U.S. coastal areas outside of the Gulf of Mexico expired last year.

Near the end of President George W. Bush's administration, the U.S. Interior Department issued a draft five-year energy exploration leasing plan including previously banned areas along the East Coast and off the coast of California.

Under President Barack Obama, the new Interior Secretary Ken Salazar recently extended the public comment period on the Bush leasing proposal by 180 days, providing a total of 240 days to review the drilling plan through September.

Some Democrats and environmental groups have called for placing additional limitations on offshore drilling or reinstating the ban completely.

"Before renewing those restrictions, however, it makes sense to take a hard look at not only the oil reserves that are held back, but the total potential economic growth that will be foregone," the report said.

The American Energy Alliance based its conclusions on data gathered from the Interior Department, Commerce Department and Treasury Department.

Interior's Minerals Management Service estimates that the Outer Continental Shelf holds 86 billion barrels of oil and 420 trillion cubic feet of natural gas that have yet to be discovered.

Offshore areas could contain more oil and gas, especially since the areas that were under the moratorium have not been explored in 25 years.