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U.S. News and World Report, March 5, 2009; http://www.usnews.com/articles/news/energy/2009/03/05/can-natural-gas-break-our-oil-habit.html

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Landrieu plots effort to cut 'excessive' tax provisions from budget
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Obama overrides Bush rule on Endangered Species Act
LA Times, March 3, 2009; http://www.latimes.com/news/science/environment/la-na-epa-species4-2009mar04,0,6706708.story

OMB chief urges House panel to repeal oil-industry tax breaks
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Presidential Petroleum Prejudice
City Journal, March 2, 2009; http://www.city-journal.org/2009/eon0302ms.html

Some say the market has finally found the floor
Greenwire, March 2, 2009; http://www.eenews.net/Greenwire/2009/03/02/1/

Federal court vacates Alaska drilling decision
KTUU, March 8, 2009; http://www.ktuu.com/Global/story.asp?S=9969379

ANCHORAGE, Alaska (AP) - A federal appeals court panel has vacated the opinion it issued last year that stopped Shell Oil's exploratory drilling plans for the Beaufort Sea.

But both sides in the case have been left wondering what it means.

The 9th US Circuit Court of Appeals on Friday gave no indication whether a change in the November 20th ruling would mean exploration drilling will be allowed, or whether the ruling will be replaced with a similar decision.

The court in November concluded that the federal Minerals Management Service improperly granted Shell permission for exploratory drilling in the Beaufort Sea.

Judges ordered the MMS to reconsider how drilling would affect wildlife and Inupiat Eskimo subsistence hunting and fishing.

MMS officials disputed the ruling and said the agency had extensively analyzed potential impacts to wildlife.

Shell asked for a review by the entire 9th Circuit court.

The company postponed exploration for 2009 on leases it holds in the Beaufort Sea and the Chukchi Sea off Alaska's northwest coast.

Shell spokesman Curtis Smith says it's impossible to know what the intent of the decision could mean.

Mike Bybee of the Sierra Club says he was surprised the decision was vacated. He says the judges in November were clear on the cumulative effects of industrial development in the Beaufort.

Interior chief mulls royalty overhaul, Kerr-McGee appeal
E&E News, March 6, 2009; http://www.eenews.net/eenewspm/2009/03/06/2

Noelle Straub

The Interior Department likely will appeal a court ruling that could allow oil and gas producers in the Gulf of Mexico to jointly forgo billions of dollars in royalty payments, Interior Secretary Ken Salazar said today.

The department also has begun a comprehensive review of royalty collection, renewable energy and transmission siting issues, Salazar told reporters.

Asked about an approaching deadline on whether to appeal the offshore oil and gas case, Salazar said, "There is a good chance that we will appeal the circuit court decision to the U.S. Supreme Court, but we have not yet reached that decision."

The 5th U.S. Circuit Court of Appeals in January sided with Kerr-McGee Oil and Gas Corp. against the Interior Department in a closely watched dispute over royalty payments from deepwater gulf leases. Kerr-McGee was acquired by Anadarko Petroleum Corp. in 2006. Kerr-McGee was challenging the legality of price thresholds contained in leases issued in 1996, 1997 and 2000 (E&E Daily, Jan. 14).

The matter will be examined as part of a comprehensive review of onshore and offshore royalty issues, resulting in a legislative package Interior will send to Capitol Hill. Interior will consider organizational issues of the Minerals Management Service and Bureau of Land Management and their management of oil and gas resources and the collection of royalties, Salazar said. Any decisions are "probably several months away."

The driving force will be to ensure the American taxpayers are getting their just return from the assets, Salazar said. The analysis will include a comparison of royalty rates on state and private lands versus federal lands.

"I do not believe that we should be subsidizing the oil and gas industry," Salazar said. "We should get to a fair market value return."

The royalties could be used to boost the Land and Water Conservation Fund, which has been authorized at $900 million a year but funded only at about 10 percent of that, Salazar said.

Meanwhile, a central Gulf of Mexico oil and gas lease sale scheduled for March 18 will proceed, Salazar announced. The secretary will travel to New Orleans to participate in the auction itself and take a look at the development of oil and gas resources in the Gulf Coast.

House Republicans sent Salazar a letter yesterday stressing that the lease sale should not be delayed.

Renewable energy issues
On renewable energy, Salazar said the department is spending "a lot of time" looking at the process of siting of renewable energy facilities both onshore and offshore.

"One of the concepts that we have been exploring is the creation of energy zones," he said. "Right now, frankly, it's helter-skelter because whatever applications are coming in the door first are being processed. It seems to me that's not the right way of doing it. We ought to have a time and place relative to where these facilities are going to be located."

The department also is very concerned about transmission issues for renewable energy, he said. Officials have mapped out 5,000 miles of electric corridors in the West, which they are now trying to refine, and in the "not-too-distant future" will have a comprehensive announcement on that, he said.

The country must also develop a national grid system, Salazar said. Interior will work closely with the Energy Department and Congress to develop electric "highway system," he added.

The ideas are similar to a bill introduced by Senate Majority Leader Harry Reid (D-Nev.) yesterday that would give the Federal Energy Regulatory Commission expanded authority to site transmission lines within broad regional grid road maps to reach renewable energy zones.

GOP tries to draw a bead on Salazar
Denver Post, March 6, 2009; http://www.denverpost.com/sports/ci_11848267

By Michael Riley

House Republicans took a swing Thursday at Interior Secretary Ken Salazar, accusing him in a letter of "a clear track record of opposing oil and gas development in our country" and anticipating that he would cancel or postpone an upcoming drilling-lease sale in the Gulf of Mexico.

But Salazar promptly defied GOP expectations, his spokeswoman releasing a statement that said he supported the sale and would travel to New Orleans on March 18 to mark the event.

The episode seemed to underscore the difficulties Republicans have had gaining traction on the energy issue, even as the party signaled a new determination to bring the country's attention back to domestic drilling.

Among those at the center of the GOP effort is Rep. Doug Lamborn of Colorado Springs, who said he planned to "be an alternative Colorado voice for common sense."

Lamborn and other Republicans have been placing op-ed pieces in newspapers around the country, blasting Salazar's decisions to overturn some Bush administration decisions on drilling, including one piece that said Salazar was "promoting the agenda of radical environmentalists."

But the difficulty in getting a steady bead on Salazar Thursday only highlighted the difficulties of such a strategy with oil at less than $40 a barrel.

The letter regarding the Gulf lease sale, signed by 14 House members, including Lamborn and Rep. Mike Coffman, an Aurora Republican, said that canceling or postponing the lease would "establish a dangerous trend."

That idea is based on a series of decisions Salazar has announced within his first month on the job, decisions that reversed Bush administration initiatives and signaled a new direction for energy policy in the West.

He withdrew controversial oil and gas leases in Utah; delayed a new five-year leasing program on the outer continental shelf; and reversed a Bush-era policy on a new round of oil- shale research and development leases in Colorado and elsewhere.

Thursday, Republicans tried to connect those dots, with Lamborn suggesting the Obama White House, not Salazar, may be calling the shots.

"I just don't know who is in charge," Lamborn said.

The Obama administration in recent weeks has recast its energy message to fit the economic crisis, pushing renewables in the stimulus as an industry that will help create jobs in tough times. The Republicans seemed to take a page from that playbook.

"There is no question that the creation of more energy in our nation will help create new jobs and make us more secure by lowering our dependence on foreign oil," said Rep. Doc Hastings, R-Wash. The ranking Natural Resources Committee member made an unscheduled appearance at a Energy and Mineral subcommittee hearing Thursday to criticize Salazar.

"The secretary's recent actions . . . show a clear trend against oil and gas development and job creation," he said.

But not, at least, when it comes to drilling for oil in the Gulf of Mexico.

Salazar "was among those who, in the Senate, helped write the legislation to allow this part of the Gulf of Mexico to be opened up," Interior spokeswoman Kendra Barkoff said. "This is a good example of the common ground we should be finding on offshore energy issues."

Rep. Lambert no fan of textbooks from Mexico

A Republican lawmaker isn't happy that textbooks from Mexico will be distributed to Spanish-speaking Colorado students.

Rep. Kent Lambert of Colorado Springs said the state has no way to screen "patently false information" in the textbooks, including possible claims that land in the southwestern United States is actually Mexican property.

He also fears the books interfere with goals of inclusion, including learning to speak English.

"This is outrageous," Lambert said.

The State Board of Education is holding a reception at 11 a.m. today in its lobby to thank Mexican Consul General Eduardo Arnal for donating 500 boxes of books to Colorado students.

The state has been accepting and distributing the books for 12 years, said board spokesman Mark Stevens.

The books are published for use in schools in Mexico and distributed to Spanish-speaking students in Colorado to help them learn English.

Supporters say the books help students learn English. The books being donated include textbooks and children's fiction for elementary- and middle-school levels.

Lawmakers head to nation’s capital for energy meetings
Fairbanks Daily news-Miner, March 5, 2009; http://newsminer.com/news/2009/mar/05/lawmakers-skedaddle-nations-capital/

By Rena Delbridge

FAIRBANKS — The halls of the state Capitol grew quiet by mid-day Wednesday, with only a handful of committee meetings on the agenda and nearly a quarter of the Legislature en route to Washington, D.C., for the Energy Council meetings.

The council is made up of legislators from energy-producing states and gathers to discuss energy issues.

Lawmakers who attend say the days in D.C. are a prime way to build relationships with high-level decision makers in the federal government and with Congressional leaders.

But others wonder why so many legislators are skipping out of town halfway through a 90-day session with so much work to do. Worse, some legislators say, the Alaska lawmakers aren’t talking with any one voice or clear goal, but as individuals or caucuses with their own agendas.

House Speaker Mike Chenault, R-Nikiski, is not among the 17 members attending. Ten senators are making the trip and Interior lawmakers traveling to D.C. are Sen. Gene Therriault, R-North Pole, and Reps. Jay Ramras, R-Fairbanks, John Coghill, R-Fairbanks, and Scott Kawasaki, D-Fairbanks.

Chenault said it’s important that Alaska legislators attend. Alaska is an energy-producing state, and with the new national political balance, both the state majority and minority parties are probably wise to attend in force, he added.

The House members are not attending with any cohesive strategy, he acknowledged. Members are making their own arrangements and meeting plans.

“Certainly there is no concerted effort to go to D.C. and speak in one voice,” he said.

That’s a frustration of sorts for Therriault, who has attended for years. During his time leading the Senate’s Republican majority, Therriault sat on the council’s executive committee. Now, as leader of a four-person minority, he goes to learn, build relationships and advocate for Alaska.

“I personally think there should be a more coordinated effort,” Therriault said. “In the past, I have been troubled by that.”

Coghill attended the council meetings in nine of his 11 years in the Legislature. He served on the executive committee for five years. In that time, he delved into everything from nuclear power and transmission grids to regulatory and case law and supply issues.

“We are part of an energy discussion international in scope,” he said. “Alaska gets to be a part of a broader discussion, and we are widely respected.”

But most valuable of all has been the relationship-building, he said.

Therriault concurred, reflecting on meetings with officials to pave the way for the Alaska Gasline Inducement Act and on other issues. Relationships forged over private lunches lead to access down the road that can serve Alaska well, he said.

“I don’t know if we need to send 20 people back there or 10 people, but it certainly is worthwhile for people who have established relationships in the past, and at the very least, for Alaskans to maintain the relationships we have,” he said.

With a new administration in the White House and sensitive energy issues on the national stage, including drilling in the Outer Continental Shelf and in the Arctic National Wildlife Refuge, and the drive for cleaner power, more people from both parties are going.

Republicans are “playing defense,” Coghill said. Energized by Pres. Barack Obama’s presidency, the Democrats could have an unusual opportunity to push forward.

“For the first time in many years, they have Congress paying attention,” he noted.

That’s exactly what Kawasaki is hoping for. He flew to D.C. on Wednesday for his second Energy Council meeting — and he traveled on his own dime.

“The most important thing on the agenda for Interior Alaska is the cost of energy,” he said, noting meetings with officials from the Departments of Interior and Energy, and with members of the House appropriations committee.

The big talk in the nation’s capital, he said, centers on proposals to build a large-diameter natural gas pipeline between Alaska’s rich North Slope resources and markets in the Lower 48 and Canada.

The House Majority is paying the way for Ramras, an alternate Energy Council member.

Speaking as he piled into a D.C. cab with Alaska Sens. Lesil McGuire, Bert Stedman, Charlie Huggins and Gary Stevens, Ramras rattled off his agenda for the next several days, a slate of meetings and talks that leaves little room for downtime. Already on Wednesday he’d met with three of the five Federal Energy Regulatory Commissioners, breakfasted with four state senators, talked pipeline issues with the FERC director and sat down with John Katz in Gov. Sarah Palin’s D.C. office, among other things.

Talk has centered on competing proposals by TransCanada and Denali to build large-diameter natural gas lines. TransCanada won a state license under the Alaska Gasline Inducement Act, while Denali is a joint effort by two gas suppliers, BP and ConocoPhillips. The Alaska lawmakers also have been asking and fielding extensive questions on instate natural gas development, Ramras said.

"I'm here to be like a little sponge," he said. "I'm taking advantage of it hour by hour. I've been to D.C. on my own dime to see the monuments. I'm here now to move the football for Alaska, and there is nothing like face-to-face opportunities to sit down with people who set federal policy."

Half of the Interior delegation is attending. Reps. David Guttenberg and Mike Kelly, and Sens. Joe Paskvan and Joe Thomas are not going. Some will take the time to catch up in Juneau, while others plan to return to Fairbanks.

Guttenberg has never attended. The short legislative session and volume of work to do just doesn't leave the time, he said.

"I don't think anything is more important, as far as our job, as what we do here," he said.

He is gratified to see a more sizable contingent of Democrats head to D.C., especially with the stars so aligned. Between Obama, Alaska Sen. Mark Begich, a Democrat, and the recent appointment of former Sen. Kim Elton, D-Juneau, to Director of Alaska Affairs in the Department of Interior, Democrats' talk might fall on listening ears.

Therriault was absent all week from Juneau. He attended a major oil and gas symposium Calgary, Alberta, early this week before flying on to D.C.

He attended the Canadian event because of Alaska's new partnership with TransCanada under AGIA. Among the speakers were TransCanada and Denali officials and Kevin Banks of the Alaska Department of Natural Resources.

U.S. should hike fuel taxes, expand offshore: IEA
Reuters, March 5, 2009; http://www.reuters.com/article/GCA-BusinessofGreen/idUSTRE5247CO20090305

By Ayesha Rascoe

WASHINGTON (Reuters) - The United States should consider new gasoline and diesel taxes and expand domestic oil and natural gas production to recently opened offshore areas to increase the nation's energy security, an International Energy Agency official said on Thursday.

Fatih Birol, chief economist for the agency that advises 28 industrialized countries, said the U.S. government should consider taking advantage of falling oil prices by establishing taxes on fuel that would "lock in the efficiency gains that resulted from last year's price surge."

"Similarly, I believe efforts to maximize the production of the United States' domestic oil and natural gas resources ... could form a crucial part of a comprehensive strategy to enhance the nation's energy security," Birol told lawmakers at a hearing before the House Subcommittee on Energy and Mineral Resources.

Birol also warned that along with falling demand, the economic slump could reduce energy investment too much and lead to another global spike in fuel prices in several years as the economy recovers.

Oil prices rose to record levels above $147 a barrel last summer pushing U.S. gasoline costs to more than $4 a gallon. Following this spike in energy costs, lawmakers allowed a long standing ban on drilling in most areas of the Outer Continental Shelf to expire.

Some lawmakers have called for the moratorium on offshore drilling to be reinstated or for additional restrictions to be placed on oil and natural gas production off the coasts of America.

The Energy Information Administration estimates that U.S. oil production with expanded offshore output would be 565,000 barrels per day higher at 2.7 million bpd in 2030 than under a restored moratorium.

In addition, U.S. natural gas production would be 4.1 trillion cubic feet in 2030 with a ban on most offshore drilling, compared with 4.9 tcf if the moratorium is not in place.

Acting EIA Administrator Howard Gruenspecht cautioned that although producers now have access to a significant volume of undiscovered recoverable oil and natural gas on the Outer Continental Shelf, much is still unknown about these resources.

"There is a great deal of uncertainty surrounding the resource estimates, as well as the timing and cost to explore and develop these resources," Gruenspecht said at the hearing.

GOP Senators seek to nix Salazar's OCS plan delay
Oil and Gas Journal; March 5, 2009; http://www.ogj.com/display_article/355329/120/ARTCL/none/ExplD/1/GOP-Senators-seek-to-nix-Salazar's-OCS-plan-delay/

Nick Snow

WASHINGTON, DC, Mar. 5 -- Three US Senate Republicans asked US President Barack H. Obama on Mar. 2 to expeditiously complete development of the 5-year Outer Continental Shelf plan, which US Interior Secretary Ken Salazar has delayed.

"In addition to improved energy efficiency and the development of renewable resources, tapping new domestic sources of conventional energy will help relieve stress on family budgets, put Americans to work, and free us from dangerous and unstable foreign regimes," Sens. Kay Bailey Hutchison (Tex.), Lisa Murkowski (Alas.), and Christopher S. Bond (Mo.) said in a letter to the president.

"To achieve these substantial benefits, we urge you to limit any delay and complete as expeditiously as possible your administration's five-year plan for offshore oil and gas development," they continued.

Salazar announced on Feb. 10 that he was delaying the 5-year OCS plan which his predecessor, Dirk A. Kempthorne, launched the previous summer because it was "a headlong rush of the worst kind." Kempthorne said at the time that he was beginning the process 2 years early because crude oil prices had broken records a few weeks earlier.

"The federal government is responsible for the prudent stewardship of the natural resources that lie beneath our public lands and the OCS. Failure to utilize these valuable resources has left America overly dependent on foreign countries and threatened our energy, economic, and national security. We can no longer continue on this unsustainable path of self-imposed debility," the three GOP senators said in their letter.

"Decades of experience with modern drilling technology show that it is possible to balance the production of domestic resources and the protection of our environment. An affirmative decision by you not to reinstate the presidential moratorium on US offshore oil production, along with your leadership in delivering a new offshore drilling plan in an expeditious manner, will benefit all Americans," they continued.

The trio also asked Obama to continue the practice of sharing revenue with producing states to assure that they receive a fair share of royalties and maximize the resources brought to market. Twenty-eight other Senate Republicans, including Ranking Minority Member Mitch McConnell (Ky.), added their signatures to the letter.

Can Natural Gas Break Our Oil Habit?
U.S. News and World Report, March 5, 2009; http://www.usnews.com/articles/news/energy/2009/03/05/can-natural-gas-break-our-oil-habit.html

It is cleaner and more abundant, but it won't free America from foreign energy

By Thomas K. Grose

Natural gas is the only fossil fuel capable of getting good press these days. Its fans regularly rhapsodize about its merits, calling it an extraordinary fuel that's cheap, domestically abundant, and clean. Well, cleaner than oil, at least. Meanwhile, everyone from Texas oilman T. Boone Pickens to the Sierra Club is promoting natural gas as the key that America needs to free itself from its century-long addiction to oil. After all, the nation's appetite for oil means that nearly 60 percent of the petroleum consumed each year must be imported, much of it from unstable or unsavory regimes in the Middle East, Africa, and Latin America.

Pickens, along with a growing number of groups, wants America to slash its oil consumption by making better use of natural gas. In theory, the plan sounds simple. Around 22 percent of the natural gas burned each year is used to generate electricity. If wind energy were substituted for gas at power plants, the freed-up natural gas could be used instead to fuel ground transportation systems, starting with diesel-burning fleet trucks and buses. Advocates say this plan could cut U.S. oil imports by up to 38 percent.

Yet if the nation makes the switch from oil to natural gas to run its vehicles, will it simply be trading one foreign-dependent fuel for another? The answer is, probably. But to what extent is very hard to say. "Welcome to uncertainty," says Gordon Kaufman, a professor emeritus and oil and gas expert at the Massachusetts Institute of Technology's Sloan School of Management.

Currently, only 16 percent of the natural gas America consumes is imported. That's much better than oil, of course, but it doesn't eliminate foreign supplies. And while most of what is imported today comes from Canada by pipeline, Canada is increasingly using more of its gas domestically. That means any expansion in U.S. demand would almost certainly have to draw upon other foreign sources, which would ship it to U.S. ports as liquefied natural gas, or LNG.

Russian roulette. It's not encouraging to look at where the Earth's concentrations of natural gas lie. Three countries have more than 55 percent of the world's proven reserves: Russia (25.2 percent), Iran (15.7 percent), and Qatar (14.4 percent). Other countries that have fairly substantial reserves include Saudi Arabia, the United Arab Emirates, Nigeria, and Algeria. "It is hardly politically a smart move to rely on these countries for supplies," notes Martin Blunt, a professor of petroleum engineering at London's Imperial College. Russia, for instance, has twice used its gas resources as a political weapon by turning off supplies to its European neighbors, most recently last winter.

Moreover, even if U.S. companies wanted to buy Russian gas, not much would be available in the short term. While Russia pipes a lot of gas to Europe, it hasn't gotten heavily involved in the LNG market so far.

Natural gas is also gaining in popularity worldwide. Global consumption could increase more than twofold in coming years, and that could make for a very competitive and unreliable international market. Exporting countries will ship gas to wherever they can get the best price. And countries like Japan and South Korea, which are much more reliant upon imports than the United States, have shown a willingness to pay top dollar. Japan imports more than four times as much LNG as the United States, while South Korea imports nearly 58 percent more. "We would be competing with everyone," says Steve Gabriel, an expert on natural gas markets at Resources for the Future. "If we have to get into the international market, we might have a problem."

So, what about those bountiful domestic supplies that proponents talk about? Can they free the country from the clutches of foreign suppliers? Perhaps, but probably not entirely. The Energy Information Administration says that U.S. dependence on foreign natural gas could drop from 16 percent to 3 percent by 2030 if it takes full advantage of so-far untapped reserves. That would include tapping unconventional sources, mainly from shale, opening up Alaska's gas fields, and mining the gas beneath the ocean along the outer continental shelf.

"But those are big 'ifs,' " says David Pumphrey, deputy director of the energy program at the Center for Strategic and International Studies. For instance, there's a fair amount of political and environmental opposition to going after the Alaskan and OCS gas. Some are worried, for example, that an Alaskan pipeline could damage Arctic permafrost.

Shale gas may be the easiest and least controversial of these resources to mine. But it has only been in recent years that new technology—a form of horizontal drilling initially perfected and used to great success in the Barrett shale of north Texas—has made shale gas accessible. Accordingly, estimates of the size of U.S. shale gas deposits are rising. The Potential Gas Committee, an independent U.S. body of energy experts, delivers its biennial report on U.S. gas reserves in April; it says it expects to note that there has been "a significant increase in technically recoverable shale gas resources."

Still, even the rosiest scenarios could be tripped up by cost. Mining unconventional gas is a much more expensive proposition than releasing it from traditional sources. "There's definitely a lot of gas in the ground," says Tony Meggs, BP's recently retired group vice president for research and technology. "The issue is not whether it's there as much as whether you can get it out at any reasonable cost."

Here's the quandary: If natural gas prices are low enough to make it an attractive alternative to consumers, it may not be financially worthwhile to extract the hard-to-get stuff from shale or the seas. Last summer, natural gas was selling for around $14 per million British thermal units; by December, the price was under $6. The result? In December 2008, there were 400 fewer gas rigs operating in the United States than six months earlier. It's also difficult to argue that natural gas is a cheaper alternative to oil, because its price tends to move in tandem with oil prices. And when the price of gas occasionally decouples itself from oil, that's not necessary a good thing. "Its price is often more volatile than oil's," Pumphrey says.

Power switch. Even if the economics and technologies of extraction somehow converge to produce a plentiful supply, it would be difficult and costly for the United States to switch from gasoline to natural gas to power automobiles. Gasoline's retail infrastructure is as convenient as it is efficient, and most Americans are never very far from a filling station. Building a new and just-as-easy-to-use natural-gas retail distribution system from scratch would cost billions of dollars, and it's not clear who would pay for it, particularly if there are doubts about consumer demand. "That's something I can't get my arms around," admits Melanie Kenderdine, an associate director at MIT's Energy Initiative. "If you can't, to a maximum extent, use the existing infrastructure, you will run into enormous resistance."

For a switch to work fully and extend beyond truck and bus fleets, it would also require millions of consumers to convert their cars to run on natural gas instead of gasoline. The time, effort, and cost it would take for manufacturers to make—and for consumers to buy—a new breed of car that's affordable would be enormous, even if automakers were willing to produce it. The only natural-gas car on the market today, the Honda Civic GX, is hardly a bargain. It has a sticker price of $25,190—nearly $10,000 more than a normal Civic— and can travel only 170 miles on a tank of fuel.

Pricey. Can millions of consumers be persuaded to retrofit their cars? The cost of converting a gasoline car to natural gas ranges from $12,500 to $22,500. That's pretty expensive, even though 50 to 80 percent of the cost can by offset by federal tax credits. And, in fact, only a handful of large sedans, pickups, and passenger vans currently are capable of being retrofitted. Meanwhile, a gallon equivalent of compressed natural gas at the pump is less than a dollar cheaper than a gallon of gasoline. That's not the kind of price break likely to compel many people to make such a big upfront investment. "When oil was $140 a barrel, a lot of things that looked economical then no longer look so economical now," Gabriel says. Of course, many oil experts say that once the recession ends, oil prices will skyrocket once again; the EIA predicts a barrel of oil will sell for $189 by 2030.

Nevertheless, many believe that natural gas remains better suited to generating electricity than powering trucks and cars. For one thing, BP's Meggs notes, producing electricity more cleanly should be a higher priority. Globally, 40 percent of carbon dioxide emissions spew from power plants, double the amount that comes from ground transportation. Moreover, natural gas is a wonderful complement to wind as a power source. Wind power can be intermittent. That requires a backup fuel supply that can be switched on instantly when the wind dies and switched off just as quickly when it starts blowing again. Natural gas is the only fuel capable of performing that task.

Clearly, natural gas has a prominent role to play in America's energy mix. But whether it's capable of truly freeing the country from dependence on foreign fuel suppliers and whether it will ever be that much cheaper than oil, well, the answers to those questions remain as murky as a gallon of crude.

Administration must allow use of our own resources
Buffalo News, March 4, 2009; http://www.buffalonews.com/149/story/596593.html

By David Copley

As odds rise that Congress will pass climate-change legislation that raises the cost of coal, cleaner- burning natural gas is gaining favor as the fuel to power electric plants around the country.

But while policymakers are continuing to encourage the use of natural gas, they are constraining access to it. Just the other day, Interior Secretary Ken Salazar placed a hold on plans to open up untapped offshore areas in the Atlantic Ocean, the Pacific Ocean and Gulf of Mexico to oil and natural gas production. This happened despite all the recent talk in Washington about reducing foreign energy dependence and mitigating carbon emissions.

Surely Salazar is aware that Congress last year allowed a moratorium on offshore drilling to lapse and that recent polls show that more than two-thirds of Americans support tapping energy resources on the Outer Continental Shelf. Does this mean the new administration is preparing to ride roughshod over Congress on energy policy?

It is nonsensical for us not to make use of our natural gas resources. There is plenty of natural gas in those offshore areas. According to the U. S. Minerals Management Service, an estimated 55.3 trillion cubic feet of recoverable natural gas is in offshore areas of the Atlantic and Pacific. And the eastern Gulf of Mexico holds another 21.5 trillion cubic feet of natural gas. What is more, these estimates are thought to be very low. They are usually revised upward.

Fortunately for those of us in New York and nearby states, advanced technology has revolutionized the development of an unconventional source of natural gas that was out of reach only a decade or so ago. Known as the Marcellus Shale, the region underlies an area of 54,000 square miles extending from West Virginia through eastern Ohio and large parts of Pennsylvania and into Western New York. The Marcellus contains up to 50 trillion cubic feet of natural gas worth about $1 trillion.

Production of shale gas is under way in other parts of the United States as well. Nine of the country's 12 largest gas fields are from unconventional sources and currently account for more than 40 percent of domestic gas production.

But no other shale-gas formation in this country compares in size to the Marcellus. The economic benefits from recovering its natural gas are considerable — thousands of jobs, payments to landowners and millions of dollars in additional revenue to states.

No matter, we also need offshore energy resources, and it's absurd that the government is sitting on them. Untapped, they do no good. Because natural gas is a basic necessity, the economic consequences of barring offshore development are far-reaching—not only lost jobs and revenue but more volatile energy prices and less energy security.

If the future is like the past, policymakers opposed to drilling will block the recovery of clean natural gas—even as they call for its greater use.

Landrieu plots effort to cut 'excessive' tax provisions from budget
E&E, March 4, 2009; http://www.eenews.net/EEDaily/2009/03/04/5

Ben Geman

Sen. Mary Landrieu (D-La.), a swing vote and strong oil-and-gas industry ally, hopes to pare back President Obama's proposal to repeal $31.5 billion worth of industry tax breaks and royalty benefits.

Landrieu said she will work with Senate moderates and members from other oil-and-gas producing states such as Alaska, Texas, Alabama and elsewhere. The suite of measures are "excessive" and need to be scaled back, she said, suggesting the issue could be handled in a "smarter or more streamlined way."

The senators are considering amendments to the budget legislation expected this spring. "We are considering that. I don't have anything specifically but we are considering that," Landrieu said.

"I do not think ... substantially removing tax benefits or increasing taxes to the standard industry moves us any closer to encouraging domestic production, which I think we have to continue to do" she told reporters yesterday.

The industry is a major part of the economy in Louisiana, which has production off its shores. A 2006 law that expanded Gulf of Mexico drilling steers a share of federal leasing and royalty revenues to Louisiana and several other Gulf Coast states. Landrieu estimated at the time that it would provide more than $13 billion to the state over 30 years.

The budget proposal includes a new tax on certain Gulf of Mexico producers who are currently allowed royalty waivers regardless of energy prices, ending the industry's ability to claim a deduction on domestic manufacturing income.

Obama's top budget official yesterday touted the provisions in the budget outline unveiled last week. White House Office of Management and Budget Director Peter Orszag told the House Budget Committee that the oil industry incentives "distort" the market.

"Although the administration supports the responsible production of oil and natural gas as part of a comprehensive energy strategy, excessive government subsidies distort market signals and slow the transition of the economy from fossil fuels to clean, renewable sources of energy," Orszag said in a statement (Greenwire, March 3).

Similarly, Obama said over the weekend that the plan will help provide revenues for his efforts to substantially boost funding for alternative energy programs.

"I know that oil and gas companies won't like us ending nearly $30 billion in tax breaks, but that's how we'll help fund a renewable energy economy that will create new jobs and new industries," he said in his weekly address Saturday.

But Landrieu said that while she supports expanding renewable energy, going after the oil industry should not be part of the effort to accomplish it. "You have got to do that and also move forward, not backward, on domestic production," she said.

Obama overrides Bush rule on Endangered Species Act
LA Times, March 3, 2009; http://www.latimes.com/news/science/environment/la-na-epa-species4-2009mar04,0,6706708.story

Technically, federal agencies still have the option of consulting experts on construction projects' effect on threatened wildlife, but the president is requiring it to be exercised in every case.

By Jim Tankersley

Reporting from Washington — President Obama on Tuesday overrode the Bush administration on a key step in applying the Endangered Species Act, restoring a requirement that federal agencies consult with experts before launching construction projects that could affect the well-being of threatened species.

Environmentalists said reinstating the requirement blocks the Army Corps of Engineers, the U.S. Forest Service and others from "nibbling away" at crucial wildlife habitat. Business and industry groups, on the other hand, warned that Obama's action could hamper road-building and other projects that would help jump-start the economy.

Bush's rule change, finalized in December, allowed federal agencies to determine on their own if projects would jeopardize endangered species, instead of consulting with expert biologists, as had been required for the last three decades. It gave agencies the option of calling on experts from the Fish and Wildlife Service and the National Marine Fisheries Service.

Obama made such consultation mandatory. He announced the change during a celebration of the 160th anniversary of the Interior Department, telling cheering employees it would "restore the scientific process to its rightful place at the heart of the Endangered Species Act." Technically, the president did not overturn the Bush rule, which would require a lengthy process. Instead, he issued a memorandum instructing agencies to exercise the consultation option in every instance, until the Interior and Commerce departments can reconsider the Bush rule change.

"This is very good news for endangered species," said Andrew Wetzler of the Natural Resources Defense Council. "The regulations that President Bush issued were clearly illegal, and they were bad policy to boot."

Michael J. Bean, director of wildlife programs for the Environmental Defense Fund, said the forced consultation with expert biologists would temper the ambitions of the Army Corps of Engineers, the Forest Service, the Bureau of Reclamation and other agencies that "have historically had pretty strong mission drives, which have maybe overwhelmed concerns about species."

Consultations have resulted in a variety of measures to preserve species that could be imperiled by government projects, including steps to protect the endangered San Clemente Island loggerhead shrike from the effects of a nearby Navy ship-to-shore live-fire range.

An Interior decision earlier in Bush's presidency allowed the Forest Service and Bureau of Land Management to skip the consultations when setting certain fire management policies. A 2008 government review found that both agencies frequently failed to consider key aspects of the policies' effects on species.

Industry lobbyists said Obama's decision to mandate the consultations would add "red tape" to infrastructure projects funded by the economic stimulus bill. "This directive throws the brakes on projects," said William L. Kovacs, the U.S. Chamber of Commerce's vice president of environment, technology and regulatory affairs.

Even clean energy plans, such as wind farms, could be slowed down, said Michael D. Olsen, a former Bush Interior official who now lobbies for energy interests at Bracewell and Giuliani. "It's not just projects that folks would term non-green," he said. "It's the green projects too."

Environmentalists scoffed at those warnings. "This kind of scientific consultation was how the Endangered Species Act worked for 30 years," said Athan Manuel, director of lands protection for the Sierra Club. "So I think that's sour grapes."

OMB chief urges House panel to repeal oil-industry tax breaks
Greenwire, March 3, 2009; http://www.eenews.net/Greenwire/2009/03/03/3

Alex Kaplun

The director of the White House Office of Management and Budget urged a House panel today to repeal an array of tax breaks for oil and gas producers, saying such subsidies "distort" the energy market.

OMB Director Peter Orszag's appearance before the House Budget Committee is part of an administration effort to promote the $3.5 trillion budget blueprint put forth by President Obama last week.

In his opening statement on energy to the committee, Orszag focused primarily on the investment the administration intends to make in "clean" energy development -- $150 billion over 10 years -- and only mentioned the repeal of oil and gas incentives in passing.

But in documents submitted to the committee, Orszag pitched the repeal of tax breaks for the petroleum industry as part of the administration's effort to restore "fairness and balance" to the tax system.

"Although the Administration supports the responsible production of oil and natural gas as part of a comprehensive energy strategy, excessive government subsidies distort market signals and slow the transition of the economy from fossil fuels to clean, renewable sources of energy," he said in a statement.

Orszag did not put a price on subsidies the administration hopes to repeal and only provided one specific example -- the repeal of the expensing of so-called intangible drilling costs, such as labor and chemicals.

White House officials previously said they intend to repeal about $30 billion in tax subsidies for the oil industry.

Obama made a similar pitch this weekend in his radio address, listing the repeal of oil industry tax breaks as part of his effort to change the "status quo" in Washington.

"I know that oil and gas companies won't like us ending nearly $30 billion in tax breaks, but that's how we'll help fund a renewable energy economy that will create new jobs and new industries," Obama said.

In his opening statement, Orszag also defended the budget plan against criticism that it would dramatically drive up federal spending and increase the federal deficit, saying the budget primarily sought to refocus how the government spends -- pointing to energy policy as one example. "This is simply not a big spending budget," he said. "We do, however, reorient our priorities."

But congressional Republicans are girding to fight the administration on many budget proposals, with the Budget Committee's ranking member, Paul Ryan of Wisconsin, describing the blueprint as "the mother of all budgets" that represents a "truly sweeping transformation of the government the likes of which we have not see since the New Deal."

Ryan, however, openly admitted that there is little Republicans can do to stop the budget.

"Candidly, we Republicans don't have the votes to do anything about it," Ryan said. "Our goal, our role, our job in the minority is to give the American people facts, to give the American people the truth ... and to offer them a real choice and alternative."

Presidential Petroleum Prejudice
City Journal, March 2, 2009; http://www.city-journal.org/2009/eon0302ms.html

Obama's budget discriminates against oil and gas producers.

Max Schulz

Last summer, when the price of oil rocketed nearly to $150 per barrel, presidential candidate Barack Obama scored political points by calling for a windfall-profits tax on the so-called "Big Oil" companies. Obama's plan was to wallop them with extra taxes for every barrel they sold, so long as prices remained over $80 per barrel. By Inauguration Day, though, the global economic crisis and plummeting oil demand had driven prices to less than $30 per barrel, and with no windfall profits available to tax (and gas prices at the pump no longer an issue), the Obama team quietly dropped the idea. But now, in his proposed budget, Obama has found a new outlet for his desire to punish Big Oil—and, ultimately, the American public—with higher taxes.

Announced last week, the president's budget aims to raise more than $31 billion from energy producers over the next ten years by assessing new levies, repealing existing tax deductions, and rejiggering accounting rules. Among the new charges is an excise tax on oil and gas production in the Gulf of Mexico, which the administration hopes will raise $5 billion over 10 years. Obama also wants to limit companies' ability to deduct their oil and gas drilling costs, thereby raising their taxable income. And he would impose a fee on non-producing oil and gas leases in the Gulf of Mexico on top of the rents and fees companies already pay for leases.

This last item supports a dubious claim made by Speaker of the House Nancy Pelosi and others during last summer's high-gas-price hysteria: that Exxon Mobil and its brethren were limiting supply and boosting prices by refusing to produce oil and natural gas from federal leases that they held. What the conspiracy theorists never mentioned was that companies must pay rents on leases whether they produce or not, and that companies buy leases from the government for the right to investigate whether the sites contain extractable resources. Often, of course, they don't contain enough extractable oil or gas to make drilling worthwhile, though the government keeps all fees and royalties. There are other instances in which leases are legitimately non-producing. Leaseholders must negotiate an expensive bureaucratic maze to gather the necessary environmental permits to begin exploration and drilling. That can take years. Moreover, environmental organizations like Earthjustice and the Sierra Club routinely take leaseholders to court as a way to sow delay and drive up energy companies' costs.

Perhaps the surest sign that Obama wants to go after the oil and gas industries is his proposal to make them completely ineligible for the manufacturing-tax deduction. Congressional Democrats have long sought this move, calling it a repeal of a special tax break that Washington supposedly gives the petroleum industry. The reality is just the opposite: the manufacturing-tax deduction is available to virtually every manufacturing industry in the United States, not just oil and gas producers. Denying the deduction to Big Oil won't snatch away an ill-gotten favor in the name of fairness; it will unfairly penalize an industry denounced in recent years for the sin of making money.

Is burdening a particular industry with extra taxes really the way to make public policy, particularly when the economy is reeling? The result won't merely be to penalize fat-cat corporate executives earning record profits. These new taxes will drive up the cost of producing energy resources, and those costs will wind up passed along to consumers as higher prices. Ultimately, the effects will be felt—and the taxes paid—by all of us.

The Obama administration is taking other steps, too, independent of the budget, which will end up boosting consumers' energy costs. Interior secretary Ken Salazar has made clear his intention to limit offshore drilling, for instance, despite strong public support for drilling along the Outer Continental Shelf. Salazar also has nullified recently awarded leases for natural gas drilling on federal land in Utah.

When the economy finally picks up steam again, pulling global demand for oil and gas up with it, we may find ourselves in much the same position we were in over the last several years. Oil prices soared because strong global demand chased limited global production. The extremely tight margin between what was needed and what was available drove prices to levels that ultimately helped usher in the global economic downturn. High energy prices brought on by government policies limiting oil and gas production will act as taxes, every bit as much as those new taxes included in the proposed budget. A far better approach would be to craft policies that encourage domestic production of oil.

“There’s nothing wrong with making money,” Obama wrote in his comments accompanying the budget. “But there is something wrong when we allow the playing field to be tilted so far in the favor of so few.” Indeed there is, and it’s just as wrong when policymakers tilt the playing field so far in order to punish so few. Is it asking too much that the government merely seek a level playing field?

Some say the market has finally found the floor
Greenwire, March 2, 2009; http://www.eenews.net/Greenwire/2009/03/02/1/

Nathanial Gronewold

NEW YORK — The volatile oil market might be bottoming out.

While demand is still weak, experts say oil supplies appear to be tightening quickly as producers react to a record plunge in prices. New York Mercantile Exchange (NYMEX) traders are also paying close attention to U.S. government reports showing domestic oil inventories stabilizing as the nation's gasoline supply tightens.

"We've seen the worst for prices," said Randall Rothenberg, a NYMEX energy trader with Battalion Capital.

Tightening U.S. gasoline supply has prices at the pump rising even as oil prices remain weak. After a brief recovery from less than $40 a barrel last month, light, sweet crude prices were dragged down by bearish economic indicators last Friday to close at $43.58 a barrel. Spot crude prices were hovering at $41 a barrel this morning.

But market players believe crude prices are settling and should trend upward over the next few months unless the United States or other major economies suffer even more severe economic shocks. From record highs of more than $147 last summer, prices have plummeted more than 75 percent since the bankruptcy of Lehman Brothers Holdings sparked a global financial panic.

"We found a floor at $30, barring a complete collapse of the world," said crude-oil options trader Tom Reilly at SCS Commodities.

Production cuts by the Organization of Petroleum Exporting Countries (OPEC) have been key to stabilizing the market, experts say. Though many economists questioned OPEC's ability to cooperate and cut output across the board, recent data suggest the cartel's market intervention is working.

OPEC has cut production for six straight months. A survey by Reuters released this morning shows OPEC met at least 81 percent of its agreed output decline target last month. The Department of Energy estimates that the weak economy will push oil demand down by 1.4 percent this year, but OPEC has already cut production by nearly 6 percent.

Tim Evans, an energy analyst at Citigroup Inc., sees steep output declines by OPEC, which pumps about a third of the world's oil, creating a "supply-demand deficit" by the second half of this year. Demand could still have further to drop, but faster production declines will see prices holding, he said.

"Just as it is possible for prices to fall despite rising demand, if supply is rising even faster, so it is possible for prices to rally despite declining demand as long as output has been reduced by even more," Evans said in a note to clients. "This is just the scenario we have in mind for 2009."

Analysts at Merrill Lynch agree, noting that currently demand is not falling as fast as it had during the fourth fiscal quarter of 2008. Benchmark oil prices should continue to trade at about $44 a barrel to midsummer, while climbing to $56 a barrel or possibly higher over the second half of the year, analysts there predict.

"I believe the market is surprised at OPEC's ability to comply with their cuts," Rothenberg said.

Gasoline prices jump

Another strong indication that production cuts are outpacing declining demand, experts say, is the recent increase in gasoline prices in the United States as inventories start to shrink.

Nationwide, the price at the pump is now significantly lower than the $4-per-gallon range seen in much of the country last summer, and that should encourage motorists to drive longer and farther as the weather warms up.

The deep recession could still crunch the summer tourism and driving season, but government stimulus spending could help offset some of the weaker pricing pressure on gasoline. Rising gas prices are now encouraging refiners to purchase more oil to build their stocks.

"With that gasoline demand we may have stabilized the market, so the refiner now can afford to come in and buy crude oil to make gasoline, because he has somebody who wants to buy that gasoline from him," Rothenberg said.

Others point to historical data that suggest the world is now nearing the end of the current commodity market down cycle.

Data released in a report by Ernst & Young last month show that previous commodity price declines have lasted 73 weeks on average. A commodity bear market during 1985 and 1986, for instance, saw oil prices falling 62 percent of the period but trending upward again after 64 weeks. During the 2001-02 recession, oil prices fell 49 percent, but the slide ended after 52 weeks.

The 2008-09 oil bear market is now in its 35th week.

"Looking at the duration of previous commodity price downturns, we could be halfway through this cycle," said Marcela Donadio, director of oil and gas for the Americas at Ernst & Young. "Now's the time to plan for the upside."

If the assumptions are correct, then energy and some raw materials could prove attractive, if still risky, investments over the long run as spikes in prices for precious metals, a safe haven for investors fearful of an uncertain economy, taper off.

Late February data on the Dow Jones-AIG Commodity Index show that markets for crude oil, heating oil and nickel have performed the worst so far this year, while sliver, platinum and gold markets have shown the best performance.

'Ripe for a rally'?

Oil traders say they are closely watching the stock markets, especially the Dow Jones Industrial Average and the S&P 500, for signs that the global economy is recovering.

While happy to ignore the poor performance of the stock market last year as the world's mercantile exchanges headed in the opposite direction of the New York Stock Exchange and NASDAQ, traders and investors are back to following the performance of equities. Inventory and production numbers are encouraging, but oil demand, especially from industry, remains an important factor. Sharp drops in the stock indexes will likely drag commodity prices down with them, experts say.

"Everything is ripe for a rally, but that doesn't mean we're going to get it," said Raymond Carbone, president of Paramount Options. "It's the market in search of a bottom, but I think economic news can overwhelm what seems to be a floor, if it happens."

But other factors should help to quiet the recent extreme volatility in energy prices. Speculative plays by nontraditional investors, particularly hedge funds, are much slower than they were last year, as outside actors have run from commodities. SCS Commodities' Reilly estimates that hedge fund activity has fallen by 60 to 70 percent and has stayed quiet so far this year.

The market is also much less susceptible to geopolitical shocks as worries over the economy outweigh all other concerns. Rebels in Nigeria, for example, now have virtually no ability to influence global oil prices through attacks on energy installations, since the market now takes it for granted that disruptions in that country are a fact of life.

At a major energy conference in Houston last month, several industry executives said they planned to continue investing in new production during the down economy and urged their peers to do the same.

Wall Street analysts agree with this "drill through the storm" strategy, worried that too little investment will make it difficult for the oil and gas industry to match future demand growth as economies begin to recover.