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Salazar sees industry role in crafting full US energy strategy
Oil and Gas Journal, March 20, 2009; http://www.ogj.com/display_article/356819/7/ONART/none/GenIn/1/Salazar-sees-industry-role-in-crafting-full-US-energy-strategy/

No "war" on oil, gas industry: U.S. interior secretary
Reuters, March 19, 2009; http://www.reuters.com/article/reutersComService_3_MOLT/idUSTRE52I7NP20090319

MMS, BLM must clarify lease policies, acting inspector general says
Oil and Gas Journal, March 18, 2009; http://www.ogj.com/display_article/356623/7/ONART/none/GenIn/1/MMS,-BLM-must-clarify-lease-policies,-acting-inspector-general-says/

Gulf lease sale attracts $703M in high bids
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UPDATE 2-US Gulf oil lease sale nets $703 mln in high bids
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Agencies Divide Alternative-Energy Oversight Offshore
Washington Post, March 18, 2009; http://www.washingtonpost.com/wp-dyn/content/article/2009/03/17/AR2009031701344.html

Obama Tries to Draw Up an Inclusive Energy Plan
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Oil and gas industry has 'little obligation' to produce on leases, says Interior IG
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Salazar sees industry role in crafting full US energy strategy
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Nick Snow

WASHINGTON, DC, Mar. 20 -- The Obama administration will need the oil and gas industry's help in developing a comprehensive US energy strategy, Interior Secretary Ken Salazar told the American Petroleum Institute's board of directors on Mar. 19.

"Yes, this administration is changing how things have been done before. [It's] restoring honesty and fiscal responsibility to the budget, making hard choices [and] seeing where we can get a better deal for the American taxpayer. But this is not, as some have suggested, a war on the oil and gas industry," he said.

"We need the best ideas and common sense solutions. We need an open and candid discussion that moves this debate away from the same old rhetoric, the same old divisions, the same old gridlock. You can help," Salazar told API's board, which includes the chief executives of several major oil companies.

He said some Washington "nay-sayers" argue that large-scale alternative energy development is impractical or can only come at the expense of traditional energy sources, or that being better stewards of the land means the nation can't responsibly develop remaining oil and gas on public lands. "These are false choices," he maintained.

"This year, we will hold over 40 onshore federal oil and gas lease sales. Through the Bureau of Land Management, we have already held seven oil and gas lease sales in the last 7 weeks. The 830 leases we have offered cover almost 1.2 million acres in the West. The 326 leases that sold generated $32 million in revenue for American taxpayers," Salazar said.

'Sensible addition'

He said the Mar. 17 Central Gulf of Mexico lease sale in New Orleans, which included newly opened acreage in the so-called "181 South" area, was "a sensible addition to our nation's energy supplies." He noted that the Central gulf is an area with proved resources and the necessary facilities—"an area that we all agree is appropriate for drilling."

Salazar said that during the next few weeks, he will travel around the country to have open, honest conversations about the US Outer Continental Shelf to look for common ground and hear ideas on how an offshore energy plan that includes wind, wave, and tidal sources as well as oil and gas can be integrated into Obama's comprehensive strategy.

"These conversations will begin with an honest accounting of the information we have, and the information we do not have, about the resources on the outer continental shelf. As a general matter, we know that the oil and gas resources off our coasts are not, unfortunately, enough to meet our nation's energy needs. We also know that much of America's proven reserves on the outer continental shelf are in areas already open for development, and of the acreage already leased, only one quarter is currently producing," he said.

There also are large portions of the OCS that have not been leased where oil and gas resource data either do not exist or are badly out of date, according to Salazar. Information about potential resources off the Atlantic Coast is 20-30 years old, he said.

"This is a challenge we need your help to address: How do we gather the information the American people, and your industry, need to make wise decisions about the [OCS]? Gathering seismic data, for one, is expensive. How do we manage the costs? Are there areas on the OCS that should be of priority for information collection?" Salazar said.

Important partners

"I am here today because you are important partners in America's energy future. You and the men and women who work in the oil and gas industry help fuel our cars, heat our homes, and power our businesses. Oil and natural gas are, and will remain for many years to come, a cornerstone of our nation's energy base," the secretary said.

But America's oil and gas supplies are not endless, and the country consumes 25% of the world's oil while sitting atop 3% of its reserves, he continued. "We rely on imports. And more and more, the readily recoverable oil and gas reserves of our planet are under the control of nationalized oil companies. These companies do not respond to market forces in the same way that yours do. Governments often work through these companies to exert geopolitical pressure on their neighbors. And world markets sit on pins and needles awaiting an [Organization of Petroleum Exporting Countries] production decision," he said.

"Our dependence on foreign oil is as much a dependence on the countries that directly supply our oil as it is a dependence on the markets and forces that can, in a 6-month period, drive oil up to $147/bbl and then down to $45/bbl. It is a dependence on our military to keep oil flowing through the Strait of Hormuz. And it is a dependence on carbon that, for the sake of our planet, we cannot sustain," Salazar said.

He said he expects that many in the US oil and gas industry will disagree with elements of the Obama administration's approach. "I believe, for example, that the previous administration's decision to allow oil and gas development near national parks in Utah deserves a second look. I believe we should support research and development on oil shale, but that a 5% royalty rate for commercial production is simply too low," he said.

But there also are many areas on which the administration and the oil and gas industry can agree, Salazar continued. "In Colorado, I know many oil and gas companies who work closely with local communities to mitigate the impacts of development. We can and should do more to help spread best management practices around the industry," he suggested.

An API spokeswoman said following the meeting that the group appreciated the opportunity to meet with the secretary. "He recognizes the important role of oil and natural gas in meeting the nation's economic and energy goals, and we look forward to working with him," she said.

No "war" on oil, gas industry: U.S. interior secretary
Reuters, March 19, 2009; http://www.reuters.com/article/reutersComService_3_MOLT/idUSTRE52I7NP20090319

By Tom Doggett

WASHINGTON (Reuters) - The U.S. interior secretary on Thursday told oil and gas company executives the Obama administration has not declared war on their industry, but their companies will lose some tax breaks and he suggested they may pay higher royalties on production from public lands.

"Just as your shareholders expect you to get a fair rate of return on your investments and to be wise stewards of your balance sheets, the American people are asking the same of us as we manage their resources," Secretary Ken Salazar said in a speech to the board of the directors of the American Petroleum Institute, the trade group for big oil and gas companies.

"But this is not, as some have suggested, a war on the oil and gas industry," he said.

Still, Salazar said the Obama administration wants to end certain tax breaks for the industry that it believes are no longer needed and the Interior Department will review U.S. royalty rates that he said are very low compared to other countries.

"The American people want to know they are getting a fair deal," Salazar said.

Energy companies have said repealing tax breaks and imposing higher fees will discourage domestic oil and gas production, making the United States more dependent on foreign energy supplies.

They have also called for access to more government lands where drilling is prohibited or heavily restricted.

Salazar said oil and natural gas will remain "a cornerstone of our nation's energy base" for many more years, but alternative energy sources, like wind and solar power, must also be developed.

API spokeswoman Karen Matusic said the trade group's board welcomed the opportunity to hear Salazar's views on energy development.

"He recognizes the important role of oil and natural gas in meeting the nation's economic and energy goals, and we look forward to working with him," she said.

MMS, BLM must clarify lease policies, acting inspector general says
Oil and Gas Journal, March 18, 2009; http://www.ogj.com/display_article/356623/7/ONART/none/GenIn/1/MMS,-BLM-must-clarify-lease-policies,-acting-inspector-general-says/

Nick Snow

WASHINGTON, DC, Mar. 18 -- Federal oil and gas leasing programs could do more to encourage leaseholders to move more aggressively toward production, the US Department of the Interior's acting inspector general told a congressional subcommittee on Mar. 17.

Mary L. Kendall told the House Natural Resources Committee's Energy and Minerals subcommittee that the DOI inspector general's office recently completed an evaluation of nonproducing federal oil and gas leases for US Rep. Norman D. Dicks (D-Wash.), who chairs the House Appropriations Committee's Interior and Environment subcommittee.

"In addition to some very challenging data integrity and lease oversight issues, we found that the [US] Bureau of Land Management and the [US] Minerals Management Service need to develop much clearer policy concerning the expectations of production of oil and gas on federal lands. We recommended that [DOI] consult with Congress in this regard," she said.

Kendall said investigators from her office found that producers who hold federal leases have little obligation to actually produce oil and gas, and that DOI has no formal policy to compel them to bring the leases into production.

"While current statutes, regulations, and policies do promote exploration, production activities are not required to commence within the primary lease term. The bureaus do not inquire about the production strategies of companies and have not attempted to enforce the performance clause included in lease agreements," she said in her written testimony.

"Both industry and bureau officials cautioned, however, that mandating production activities may not necessarily have positive outcomes and could, in fact, be counterproductive by reducing industry interest in federal leases," Kendall said.

Dispenses with rhetoric

She made her observations at the House Natural Resources subcommittee's hearing examining oil and gas production on the US Outer Continental Shelf. Rep. Jim Costa (D-Calif.), the subcommittee's chairman, said he was determined to examine the lease diligence question without the rhetoric that characterized congressional debate on the matter last summer.

"Perhaps no single statistic was used more last year than the number 68 million, as in 'There are 68 million acres of nonproducing federal oil and gas leases in the United States.' While an accurate number, by itself it told us very little," Costa said in his opening statement.

"One side argued that oil companies were just sitting on these leases and they should 'use it or lose it.' The other side argued that these leases had no oil and gas beneath them, and we needed to provide new acreage to the industry so they could 'drill, baby, drill.' To me, both of these positions are nonsensical," he maintained.

Costa said witnesses at the Mar. 17 hearing also included a representative from the Government Accountability Office, which also has been examining whether federal leaseholders are aggressively trying to produce oil and gas from their tracts.

"From their reports, this much is clear: The answers here are not solely on one side or the other. Companies are not just sitting on their leases and refusing to drill, but they are also not being blocked by lawsuits at every turn or…stuck with land that has no resources," he said.

Many reasons

He noted that many factors can explain why a lease does not produce oil and gas, including regulatory delays, workforce shortages, equipment shortages, and many other complexities. "Understanding these reasons in a more thoughtful manner will allow us to move forward more intelligently and ultimately help us figure out how domestic oil and gas production will fit into our short-term, medium-term, and long-term energy strategies," Costa said.

Rep. Doug Lamborn (R-Colo.), the subcommittee's ranking minority member, noted that Congress extensively debated the nonproducing leases issue last year after the Natural Resources Committee's majority staff issued a report on the subject.

"Unfortunately, that debate was held on the House floor and not in this subcommittee. The result was the dissemination of a tremendous amount of misinformation about the process and status of oil and gas development on our federal lands and the OCS," Lamborn said.

"Now we all know that there are no domestic companies sitting on vast reserves of oil. There are, however, many state-run companies that are part of the [Organization of Petroleum Exporting Countries] cartel who are committed to hoarding oil to drive up prices. That isn't an option for American companies who only make money by bringing the oil out of the ground," Lamborn said.

New policies proposed by US President Barack H. Obama are more disturbing than statements about domestic producers not aggressively developing their leases, because Obama clearly relied on information from the committee majority staff's report, he continued. "Last year, it was the 'Use it or lose it' legislation. This year, it's the president's budget, which includes a billion dollars in new taxes just on operations in the Gulf of Mexico," he said.

"These new 'nonproducing' fees will charge companies while they wait for federal permits, evaluate seismic data, or spend billions to build the infrastructure needed to produce oil from deep beneath the sea floor. These fees will not make companies develop any faster. In fact, they constitute a purely punitive proposal designed for what appears to be cheap political gain. They will, however, harm domestic development by discouraging companies from investing in marginal leases, thus reducing investments in new development and ultimately leaving us more dependent on foreign sources of oil," Lamborn maintained.

'Litany of obstacles'

Kendall said investigators from her office found that the three primary reasons many federal leases were not in active production were: data integrity issues in the MMS and BLM systems, "a litany of obstacles cited by oil and gas companies," and limited statutory requirements on either DOI or the oil and gas industry to promote production.

"We believe that improved and more comprehensive data would assist in instituting a monitoring program for nonproducing leases and [would] paint a much more accurate picture of the production status of DOI leases. Similarly, a better understanding of the processes and problems leading to production would lead to a more accurate perception by the public of the production status of DOI leases. Further, more explicit statutory or regulatory mandates would contribute to clearer expectations on the part of both DOI and the oil and gas industry," she said in her written testimony.

Frank Rusco, GAO's natural resources and environment director, told the committee that the congressional watchdog service has found many material weaknesses in the numerous evaluations of federal oil and gas management it has conducted in recent years.

Weaknesses include DOI's doing less to encourage development of federal leases than some state and private landowners; MMS and BLM's employing different practices for deciding which properties to lease and when; their not doing more to encourage development of leases that appear more likely to have considerable resources; and BLM's persistent problems in hiring and retaining enough well-trained employees to accommodate its rapidly increasing workload.

"The federal government receives one of the lowest shares of revenue for oil and gas resources compared with other countries, and [DOI] has not systematically re-examined how the federal government is compensated for extraction of oil and gas for over 25 years," Rusco said in his written testimony.

Kendall said her office's investigators found that incompatible data in MMS's and BLM's tracking systems put DOI at risk of losing millions of dollars in royalties. "In one case, a breakdown in communications between MMS and BLM could have resulted in a loss of nearly $6 million in royalties over a 5-year period had the company holding the leases not sent its first production report to both bureaus, not just BLM. The existing process is heavily reliant upon companies doing the right thing," she said.

Little guidance

She said that, while several federal leasing laws and regulations contain general "due diligence" provisions requiring lessees to act affirmatively in developing tracts, DOI has done little to give leaseholders specific guidance. "For 99% of the leases, the department does not monitor to ensure that due diligence is exercised. Accordingly, none of these leases is terminated for failure to produce. Rather, [DOI] allows these leases to expire naturally," Kendall said.

Another witness confirmed that MMS has some statutory authority to enforce due diligence, which could be used to seek additional data from leaseholders. "Until a company comes to us with an exploration plan, we don't know whether it has been conducting seismic tests," said Chris Oynes, the associate MMS director in charge of the DOI agency's offshore energy and minerals management program.

MMS employs a detailed evaluation process to determine whether bids are adequate, he said in his written testimony. "It considers the potential income stream to the lessee associated with the lease and all potential royalties and rental payments to be paid to the federal government to ensure that the bonus received adequately reflects the value of the potential resources associated with the lease," he indicated. Nearly $10 million of high bids in four 2008 OCS lease sales were rejected because this evaluation process showed that they did not meet fair market value criteria, Oynes said.

Rusco suggested that DOI might adopt leasing rates and durations that could be adjusted to reflect a property's relative hydrocarbon prospects. Oynes questioned whether this would be effective. "Some leases have more prospectivity in terms of whether hydrocarbons are there, but this can't be determined until they are actually drilled," he said.

Fiscal changes, burdens
Another witness warned that changing US offshore leasing terms could dampen producers' interest in the OCS. "Fluctuations in prices and costs are something we in the industry have come to expect and have learned to manage. What has taken us by surprise, however, is the change in fiscal terms in the United States," said James W. Farnsworth, president and chief exploration officer at Cobalt International Energy LP, a privately-held Houston independent.

"For us, the high cost and technical complexity of the Gulf of Mexico was offset by a stable tax and royalty system. Since 2005, when Cobalt was founded and we began investing over $1 billion, federal royalty rates in the offshore have increased by 50%, and lease rental costs have increased by 47%," Farnsworth said. "This increase has occurred despite the fact that oil prices have reverted back to 2005 levels. Additional taxes and fees are now being considered to add even more burden to companies that are trying to find new oil and gas fields here in the US," he told the subcommittee.

Last fall the US moved into a world without OCS moratoriums or withdrawals for the first time in more than 20 years, "a world we haven't known for some time," observed another witness, National Ocean Industries Association President Tom Fry. "Is there more oil and gas out there? Most likely," he said. Fry said new evaluations of areas that have been off-limits for 2 decades clearly are needed, but they should be conducted by the oil and gas industry and not the federal government.

"When you consider how much oil is coming from a comparatively small amount of land offshore, it becomes increasingly clear just how much potential resource may exist in areas in which we haven't looked," he said. "As decision-makers, Congress doesn't have all of this information. The information we do have is often over 30 years old and reliant on outdated technology," said Fry, who also testified on behalf of the American Petroleum Institute, Independent Petroleum Association of America, International Association of Drilling Contractors, Natural Gas Supply Association, American Exploration and Production Council, and the US Oil & Gas Association.

"We know there are plenty of areas where oil and gas exploration may not be compatible with the landscape. We also know there will be parts of the ocean where resources will not be present or will not be economic. With talk of opening up areas or closing some down, shouldn't we increase our knowledge base so we can have an informed discussion about the consequences?" Fry said in his written testimony.

Oynes said a full inventory of the OCS by the federal government would take 3-5 years, depending on the type of seismic survey used and several other variables. He said MMS would close the public comment period soon on gathering information for an environmental impact statement of the Atlantic OCS but it does not have funding for the actual EIS. Other funding options are being considered, but Oynes said he does not expect much activity before 2010.

Gulf lease sale attracts $703M in high bids
E&E News, March 18, 2009; http://www.eenews.net/eenewspm/2009/03/18/5

Ben Geman

Oil and gas companies paid $703 million for leases in the central Gulf of Mexico today, far less than the $3.67 billion in winning bids at a March 2008 sale held at a time of skyrocketing energy prices.

Shell Oil Co. submitted the highest winning bid, at $65.6 million, for a block in the Mississippi Canyon region. Shell also had the highest total amount of winning bids, at $153.6 million, in the Minerals Management Service sale, followed by BP at $77.5 million, while Marathon Oil Corp. rounded out the top three at $62.4 million.

Overall, 70 companies submitted 476 bids on 348 tracts covering more than 1.9 million acres in federal waters off Louisiana, Mississippi and Alabama. MMS officials noted that 95 of the tracts that received bids were in shallow waters, indicating interest in "deep gas" deposits.

Interior Secretary Ken Salazar called the $703 million in high bids a "good amount of money" but added that the amount would have been larger had energy prices been higher. Oil was trading at more than $49 per barrel this afternoon on the New York Mercantile Exchange and has plummeted far below last summer's peak, $147 per barrel.

MMS officials also said many of the tracts offered in this sale were poorer prospects than those offered in past sales. Salazar said he did not believe that the Obama administration's plans to roll back more than $31 billion worth of oil and gas industry tax breaks and incentives over 10 years had affected interest.

The American Petroleum Institute, in a statement about the lease sale, criticized Obama's plans but stopped short of alleging that they affected the bidding. "The results of Lease Sale 208 underscore that, like most U.S. industries, the domestic oil and natural gas sector faces tough economic challenges, not only with the economy reeling but with oil prices half of what they were a year ago," API President Jack Gerard said.

But Gerard added that the tax plan would have a "devastating impact" on the industry, threatening jobs and economic recovery.

The lease sale included acreage in the "181 South" area, which was opened under a 2006 law that expanded gulf leasing and mandated revenue sharing with Gulf Coast states that have energy production off their shores.

High bids for the 13 tracts sold in that area totaled $6.48 million, according to MMS. Mississippi, Texas, Louisiana and Alabama will share 37.5 percent of the bids and future revenues from leases in the area. Another 12.5 percent goes to the Land and Water Conservation Fund.

UPDATE 2-US Gulf oil lease sale nets $703 mln in high bids
Reuters, March 18, 2009; http://uk.reuters.com/article/oilRpt/idUKN1848003820090318

HOUSTON, March 18 (Reuters) - Oil companies submitted $703 million in high bids, and $933.6 million in total bids, for tracts in the U.S. Gulf of Mexico Lease Sale 208 Wednesday, U.S. Minerals Management Service announced.

The highest apparent bid came from Shell Gulf of Mexico Inc (RDSa.L) at $65.6 million for Mississippi Canyon Block 721, a deepwater tract.

Among other high bidders was the team of Repsol (REP.MC) (REP_pa.N) E&P USA and Marathon Oil Co (MRO.N), which offered $46.5 million for Walker Ridge 578, another deepwater tract.

Noble Energy (NBL.N) bid $31.8 million for Green Canyon 74. BP Exploration & Production Inc (BP.L) offered $29.2 million for Mississippi Canyon 418. (Reporting by Bruce Nichols; Editing by David Gregorio)

Agencies Divide Alternative-Energy Oversight Offshore
Washington Post, March 18, 2009; http://www.washingtonpost.com/wp-dyn/content/article/2009/03/17/AR2009031701344.html

By Juliet Eilperin

The Interior Department and the Federal Energy Regulatory Commission will divide responsibility for regulating offshore alternative energy sources such as wind and wave power, ending an interagency turf battle.

In a joint statement, the agencies said they will draw up "a short Memorandum of Understanding" that gives Interior the right to decide on wind power proposals in federal waters, while FERC will oversee wave, tidal and ocean-current projects. Officials had quarreled for a year and a half over whether Interior's Minerals Management Service would add jurisdiction over water-powered projects to its supervision of offshore windmill development.

"Our renewable energy is too important for bureaucratic turf battles to slow down our progress," Interior Secretary Ken Salazar said in a statement yesterday. "This agreement will help sweep aside red tape so that our country can capture the great power of wave, tidal, wind and solar power off our coasts."

Interior oversees offshore oil drilling as well as dredging of sand and gravel for commercial purposes, while FERC has traditionally handled wave, tidal and ocean-current applications. Last fiscal year, the commission received 25 such applications, which are pending. It has gotten two this year, and so far it has approved a river-current project in Hastings, Minn., and a tidal venture in Makah Bay, Wash.

On Monday, Salazar told reporters in a conference call that the tug of war could hamper the new administration's efforts to expand renewable-energy capacity. "If we don't resolve the jurisdictional issues between FERC and the Department of Interior," he said, "we are not going to be able to move forward in the development of our offshore renewable energy resources."

Renewable-energy entrepreneurs, especially those in the wind sector, hailed the agreement as a way to level the playing field for competing projects. The Minerals Management Service subjects permitting applications to a detailed review that typically takes two years, while FERC can grant permits much more quickly.

"The most important thing is to make sure all the renewable technologies receive fair treatment and equitable treatment going forward," said James Lanard, who heads strategic planning and policy for Bluewater Wind, a New Jersey firm developing two projects offshore of New Jersey and Delaware.

In the past, Lanard added, wind companies had feared that wave and ocean current entrepreneurs would "tie up large swaths of the ocean" by getting an operating permit from FERC: "It's sort of been a race to the courthouse, a race to the permitting agency."

Interior and other "relevant federal land and resource agencies" will still be able to weigh in on hydropower licenses, the agencies said, though the commission "will have the primary responsibility to manage the licensing" of wave, tidal and ocean-current projects.

Obama Tries to Draw Up an Inclusive Energy Plan
NYT, March 17, 2009; http://www.nytimes.com/2009/03/18/business/energy-environment/18offshore.html

By JAD MOUAWAD

After gasoline prices rose above $4 a gallon last summer, Republican cries of “drill, baby, drill” forced candidate Barack Obama into a rare retreat. Under pressure, he said he would support some expansion of offshore oil drilling, while still emphasizing conservation and renewable energy.

Now, as the Obama administration outlines its energy plans, it is caught between oil companies, who are reminding the president of his campaign pledge, and environmental groups, who are demanding a reinstatement of the drilling ban that Congress lifted in September.

The renewed fight over offshore drilling comes amid efforts by the White House to map out an ambitious new energy policy for the country. For the first time since the Carter administration, an American president is putting energy at the center of his domestic agenda.

Mr. Obama must decide what strategies are most likely to achieve his goals of diversifying the nation’s fuel supplies, developing alternative energy sources, reducing oil consumption, and curbing carbon emissions that contribute to global warming.

Part of that equation is what role the administration sees for domestic supplies. Since taking office, it has scrapped rules issued in the final days of the Bush administration that would have opened up vast new areas for offshore drilling well into the next decade.

At the same time, the administration is allowing the Interior Department to go ahead on Wednesday with a long-planned auction of leases in the Gulf of Mexico that includes 4.2 million acres that had been off limits since 1988.

For the moment, the offshore debate has been eclipsed by the economic crisis and the sharp fall of oil prices. Gasoline now sells for less than $2 a gallon on average, and oil has fallen about 70 percent from its summer peak.

But the magnitude of the nation's energy challenge is not growing smaller. While the United States is the world's top oil consumer, its output has been falling since 1971. Oil imports now make up more than 60 percent of the nation's daily consumption of 19 million barrels.

Yet for more than 30 years, drilling off most of the American coastline has been forestalled by opposition from coastal states and environmental groups. The skeptics insist that the nation cannot drill its way out of oil dependency and that expanded drilling poses an environmental threat to coastlines. About 85 percent of the nation's coasts are now off limits, including most of the Pacific and Atlantic seaboards and the western coast of Florida.

Yet considerable untapped oil may lie offshore. Around the world, deepwater exploration has been the most dynamic source of petroleum growth in the last decade, in places like West Africa and Brazil.

American waters in parts of the Gulf of Mexico where drilling is allowed have been the biggest source of growth in domestic oil production since the 1990s, because of deepwater discoveries and technological advances that have allowed drilling in ever-deeper waters. As a result, estimated reserves in the Gulf of Mexico have grown sevenfold in the last 30 years.

The Interior Department estimates that undiscovered oil reserves total 86 billion barrels, four times the nation's official proven reserves. The bulk of that potential oil, nearly 68 billion barrels, is in areas that are already accessible to drilling in the Gulf of Mexico and Alaska.

Based on decades-old surveys, the Interior Department estimates that an additional 18 billion barrels may be found in the coastal zones that were off limits until recently. But the oil industry thinks that could be a serious underestimate given the lack of exploration.

Since Mr. Obama's inauguration, petroleum executives have used every opportunity to press their case for more domestic production. With fewer places to drill around the world, the biggest oil companies, including Exxon Mobil, Chevron and Shell, argue that more domestic oil production is not incompatible with the administration's goals of lowering imports and using energy more efficiently.

In hearings before Congress, at analyst meetings and petroleum conferences, and in television advertising, oil companies and their main trade group, the American Petroleum Institute, have highlighted the sector's contribution to jobs and revenue for the government, and argued that oil and gas would be needed for decades, even with the development of alternative fuels.

They also say that energy prices could rise sharply once the economy comes back to life, and that without more supplies, the world risks another energy shock.

"The need to make more oil and natural gas available for Americans is clear," Tim Cejka, Exxon's president of exploration, recently told the House Committee on Natural Resources. "The United States' continued economic growth and prosperity depend on access to reliable and affordable supplies of energy."

On the other end of the spectrum, environmental groups are pressing Congress to reinstate a moratorium on offshore drilling, which alarmed Democrats allowed to lapse when prices surged last year. For some of these groups, the oil industry's position is wrongheaded at a time when the nation is embarking on a drive to reduce emissions from fossil fuels.

“We now have an opportunity to take a much more balanced approach to our energy system,” said Wesley Warren, the director of programs at the Natural Resources Defense Council. “But the oil industry is not saying anything new here, which is very disappointing.”

The battle over offshore drilling is being renewed as relations between the new administration and the oil industry, which enjoyed a cozy relationship with the Bush administration, have soured.

The president’s budget would increase taxes on oil companies and would raise the cost of fossil fuels in order to pay for alternative energy sources. The industry has also objected to being stripped of tax credits, which it claims will harm production in the long run.

Charles T. Drevna, the president of the National Petrochemical and Refiners Association, said the new administration “looks at the oil and refining industry as a piggy bank to fund other energy programs.”

Since taking office, the administration has rolled back many of President Bush’s energy policies, including “midnight rulings” that opened up oil and shale developments in Utah and Colorado, and greatly expanded leasing in the outer continental shelf, as offshore waters are known.

The administration has made clear that it does not want to be rushed about offshore drilling. The Interior Department plans to hold a series of public meetings in April before drawing up a five-year plan for exploration within the next six months.

In the meantime, it is seeking to increase renewable power sources. On Tuesday, the Interior Department resolved a two-year standoff with the Federal Energy Regulatory Commission on which department has authority to issue offshore wind permits. The disagreement had forestalled the development of alternative energy offshore.

“The outer continental shelf will have its niche place in our energy policy,” Ken Salazar, the secretary of the interior, said in an interview. But he added that offshore oil supplies “should be looked at in the context of a comprehensive energy policy.”

Oil and gas industry has 'little obligation' to produce on leases, says Interior IG
NYT, March 17, 2009; http://www.nytimes.com/gwire/2009/03/17/17greenwire-industry-has-little-obligation-to-produce-on-l-10154.html

By BEN GEMAN

Oil and gas companies that hold federal leases have "little obligation" to produce energy on those tracts, but "data integrity" issues within the Interior Department prevent evaluations of whether existing leases are underused, Interior's inspector general told a House panel today.

The findings, which echo those in a report last month, comes amid Democratic pressure on the industry -- which is pushing for access to once off-limit areas -- to produce more from existing leases.

In written testimony submitted to the Energy and Mineral Resources Subcommittee, the IG said oil and gas companies with federal leases "have little obligation to actually produce" while Interior lacks a formal policy that compels companies to bring them into production.

The IG found that Interior's Minerals Management Service and Bureau of Land Management also don't inquire about companies' production strategies and don't enforce performance clauses in the leases.

President Obama's proposed fiscal 2010 budget proposes new fees on nonproducing Gulf of Mexico leases, part of a "use it or lose it" strategy Democrats say is needed to encourage production from acreage already offered for leasing.

House Natural Resources Chairman Nick Rahall (D-W.Va.) has championed plans that would prevent companies from obtaining new federal leases unless they are already producing from current leases or "diligently" developing them.

But Rep. Jim Costa (D-Calif.), the subcommittee chairman, said, "The answers are not solely on one side or the other," meaning arguments on both sides are inaccurate. "Companies are not just sitting on their leases and refusing to drill, but they are also not being blocked by lawsuits at every turn, or stuck with land that has no resources," he said.

The IG presented a multipronged picture of the issue that includes federal data problems that cloud analysis, lack of Interior monitoring of whether leaseholders are acting to develop leases, and barriers to industry production.

The study notes MMS reports that 41 percent of all federal leases are producing, which suggests that leases are underutilized. But the IG added that efforts to see if this is indeed the case are difficult because MMS and BLM use "inconsistent" procedures and definitions and BLM records are often "incomplete and inaccurate."

The problems include inconsistencies between how the agencies define and report the status of leases. Mary Kendall, the acting Interior IG, said MMS offshore leasing is "much more methodical and thought out" than BLM's process for onshore leases.

Costa suggested there should be consideration of blending them together into one agency or at least creating more standardization between them.

Scant federal guidance

The IG's written testimony also notes that a mix of considerations factor into company decisions about whether leases are brought into production, such as prices and work force issues, and says millions of dollars can be spent exploring wells that never produce. It adds that litigation and public opposition can affect development.

Nonetheless, the report says current federal practices are also a problem, noting that Interior has provided little guidance to leaseholders on existing performance requirements. The testimony says that for 99 percent of leases, Interior does not check to see if "due diligence" is exercised, and thus none of them are terminated for failing to produce.

Chris Oynes, MMS's associate director for offshore energy and minerals management, said the agency does not require leaseholders to submit status reports on their activity before they formally come to MMS with exploration plans and seeking permits. Oynes said more legislative authority may be needed to require such reports.

But Tom Fry, president of the National Ocean Industries Association, said there are many reasons why a lease may or may not be producing. For instance, he noted that many leases are less than five years old. Leases in the deepwater Gulf of Mexico can take seven or more years to develop, he said, while the process is generally much faster for onshore leases. He said rental fees create incentive for developing leases or returning them.

"There is no incentive for a company not to develop leases," he said.

In written testimony, Oynes said roughly a quarter of the leased acreage on the federal outer continental shelf are currently producing. The OCS accounts for 14 percent of the nation's natural gas production and 27 percent of its oil production in 2007, he said. MMS currently administers 8,124 leases, covering more than 43 million acres, and also oversees 3,795 production facilities.

Low energy prices cut offshore bids sharply
Houston Chronicle, March 17, 2009; http://www.chron.com/disp/story.mpl/ap/business/6317627.html

By ALAN SAYRE

NEW ORLEANS — With energy prices a fraction of those from last year, bids for Wednesday's federal sale of offshore tracts in the central Gulf of Mexico fell by more than half, the Minerals Management Service said Tuesday.

Fifty-six companies submitted 476 bids on 348 tracts in federal waters off the coasts of Louisiana, Mississippi and Alabama — a key energy producing region for the United States. The bids will be opened in New Orleans.

Last year's sale in the central Gulf attracted 78 companies that put up 1,057 bids on 615 tracts. The sale tallied up a record $3.67 billion in winning bids. Then, oil prices were tapping $110 per barrel on the way to nearly $150 in July.

On Tuesday, benchmark crude for April delivery closed up $1.81 at $49.16. Natural gas has fallen below $4 per thousand cubic feet, about a third of its 2008 peak.

The sale comes during a time of declining production budgets for many petroleum explorers, especially small independent companies, and speculation on whether oil prices have bottomed out.

Following the recent pattern of central Gulf sales, the vast majority of the bids — 211 — either were for tracts on the shallow shelf of the Gulf, where explorers have been drilling thousands of feet down for natural gas, or in the deepest waters of the Gulf, which have provided numerous major oil and gas finds in recent years.

Leases on the shallow shelf was originally drilled years ago for easy-to-reach gas. With gas prices spiking several times over the past decade, new technologies have led energy companies back to the region.

The costly and time-consuming projects that have dominated recent central Gulf activity generally have not followed the ups and downs of spot prices and are based upon long-term analyses of energy prices and demand.

But with a full-blown recession on, explorers are taking extra caution now before taking on new projects, said Phil Flynn, a petroleum analyst with Alaron Trading Corp. in Chicago.

"The immediacy concerns have been pushed back until we get a good reading on the economy," Flynn said.

Flynn said overall sentiment in the industry is demonstrated by the U.S. count of exploration drilling rigs, which dropped by 44 last week to 1,126. A year ago, Baker Hughes Inc.'s count stood at 1,792. Of the rigs currently running nationwide, 884 were exploring for natural gas and 288 for oil.

Agencies end feud on offshore projects
Greenwire, March 17, 2009; http://www.eenews.net/Greenwire/2009/03/17/1

Noelle Straub

The Interior Department and the Federal Energy Regulatory Commission agreed to work together to settle a long-standing conflict over which agency oversees offshore alternative energy, the Interior Department announced today.

"I'm proud to let you know this morning that late last night we signed a memorandum of understanding between the Department of Interior and FERC that will allow us to move forward with the siting of renewable energy facilities in the outer continental shelf," Interior Secretary Ken Salazar told the Senate Energy and Natural Resources Committee.

Noting that there is no dispute with respect to offshore wind energy, Salazar added that the intention of FERC and Interior's Minerals Management Service is to work together to finalize rules governing all offshore alternative energies, including current and tidal.

"We don't want to be tripping over each other as we're dealing with ocean, tidal and wave energy," Salazar said. "We are very ready to move forward with offshore wind technologies. ... We will work out something that will be satisfactory to both FERC and us."

The two agencies will issue a broader memorandum of understanding outlining the process by which permits and licenses related to offshore renewable energy resources will be developed, Salazar said.

Salazar said the agencies may be ready to finalize offshore alternative energy rules within as little as two months, after he has held four regional meetings to receive public comments. But he cautioned that if major changes are made to the rules, which were proposed by the Bush administration before leaving office, it could add several months to the timeline.

Speaking to reporters in his trademark ten-gallon hat and bolo tie after the hearing, Salazar said the agreement will have a "huge impact" and create necessary dialogue between the agencies to prevent conflicts over offshore tidal projects. He said he envisions a good number of projects in the Atlantic four years from now.

Interior has permitting authority under the Energy Policy Act of 2005 over the production and transmission of renewable energy sources on the outer continental shelf.

"Interior's authority does not diminish existing responsibilities that other agencies have with regard to the outer continental shelf," the statement signed by Salazar and FERC acting Chairman Jon Wellinghoff says.

FERC oversees development of hydropower resources, including wave, tidal and ocean current energy. FERC will have primary responsibility to manage the licensing of such projects "with the active involvement" of Interior, the statement said.

Interior and FERC have been at odds for years over regulation of fledgling efforts to develop energy from offshore waves and currents.

Attempts to reach a formal memorandum of understanding failed during the Bush administration as the agencies sought to reconcile FERC's licensing authority for hydropower with Interior's Minerals Management Service jurisdiction over projects on the federal outer continental shelf.

Reactions
Energy and Natural Resources Chairman Jeff Bingaman (D-N.M) said he's a bit skeptical of the announcement.

"It's easy to announce there's going to be resolution, but from the point of view of a potential developer ... I'm just not exactly sure this is going to be that streamlined of a process," Bingaman said.

FERC Commissioner Philip Moeller clarified that his agency has no interest in wind power, but only in hydrokinetic power.

"We don't have any interest in the wind," Moeller said. "That's all in the realm of MMS. ... We don't have jurisdiction on that."

He said there could be cases of shared projects, but the memorandum of understanding could work out a good dialogue that would allow that to work smoothly. "I'm absolutely confident we can solve it," he said.

But Bingaman asked for more details and said that when his committee writes an energy bill, it will have to decide whether to legislate a solution to the jurisdictional dispute over "who has authority for what." Ranking member Lisa Murkowski (R-Alaska) also questioned whether the committee should include a fix in an energy bill.

But Moeller said that isn't necessary. "I don't think we need a legislative fix," he said. "I think we can solve it with a memorandum of understanding."

He said FERC's role would be as a citing agency, while Minerals Management Service would have a role as a leasing agency. That way the two agencies could work together in situations in which there is proposed development, Moeller said.

Renewable energy groups praised today's agreement.

"We are quite pleased to hear that the FERC-MMS dispute has been solved through the MOU announced by Secretary Salazar this morning," said the American Wind Energy Association's siting manager, Laurie Jodziewicz. "This will allow the offshore alternative energy rule to proceed, and some offshore wind projects that faced uncertainty to move forward."

Sean O'Neill of the Ocean Renewable Energy Coalition also praised the agreement. The group prefers a memorandum of understanding over a legislative resolution, saying it would allow for better flexibility.

Chris Wissemann, founder and chief operating officer of Deepwater Wind, which is developing projects off Rhode Island and New Jersey, called it "long overdue good news for wind developers looking at tapping our rich offshore wind resources."

Lawmakers from Delaware, New Jersey, Rhode Island, Maine and elsewhere wrote Salazar last week expressing concern about how delays in the offshore alternative rule will affect plans for wind projects.

The lawmakers expressed concern that FERC's current ability to permit offshore hydropower projects, combined with the absence of completed MMS rules, will allow "claim jumping" on rights to offshore tracts that wind developers have studied for years (ClimateWire, March 17).

Oil, gas group to make its case against new fees
Houston Chronicle, March 16, 2009; http://www.chron.com/disp/story.mpl/headline/biz/6314855.html

By JENNIFER A. DLOUHY

WASHINGTON —Top oil and gas industry executives are set to argue against Obama administration proposals for new fees and slashed tax incentives during a meeting with Interior Secretary Ken Salazar this week.

The industry officials, who are leaders of the American Petroleum Institute, also are expected to push for new drilling leases in broad swaths of coastal waters.

API spokesman Karen Matusic said the group was eager to speak to Salazar “about the crucial role of the oil and natural gas industry, the backbone of our nation’s economy, in our nation’s energy future.”

“We need to work together on a comprehensive and realistic energy policy that encourages — not discourages — the development of all domestic energy production, including oil and gas,” Matusic said.

Expected to meet with Salazar on Thursday are some of the more than 60 members of the API’s board of directors, including chairman J. Larry Nichols, CEO of Oklahoma City-based Devon Energy Corp., and Clarence Cazalot, the CEO of Houston-based Marathon Oil Corp.

President Barack Obama wants to raise more than $30 billion over nine years by nixing tax incentives used by oil and gas developers. The administration has asked Congress to repeal deductions for intangible drilling costs, block oil and natural gas companies from claiming domestic manufacturing deductions and repeal the percentage depletion for wells, among other changes.

Salazar said he agreed to the meeting Thursday because “it’s important to listen to everybody who has a future in the stake of energy in America, and certainly API … and its members have a huge stake in energy development for this country.”

With 400 corporate members, API is the industry’s largest trade association.

“My message to the oil companies will be simple: They are and will remain an important part of our energy future,” Salazar said Monday. “We need to work together on energy solutions.”

Salazar’s Interior Department manages 500 million acres of public land and has jurisdiction over 1.76 billion acres of the Outer Continental Shelf.

Salazar has said the country needs to balance investments in alternative and renewable energy technology with continued development of traditional fuels essential to the U.S. economy.

Industry leaders have said the tax hikes would make domestic drilling less profitable, driving American jobs overseas and increasing U.S. dependence on foreign energy. Administration officials have argued that the incentives encourage reliance on polluting fossil fuels.

Salazar said that the proposed tax changes are essential to balancing the federal budget. The incentives would be “taken away from the oil and gas industry for a very simple reason, and that’s that they are not needed,” Salazar added.

Salazar also is weighing whether to offer new leases for offshore drilling along much of the U.S. shoreline. He recently delayed a Bush-era plan for new leases on the Outer Continental Shelf.

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

But Congress is mulling whether to make some areas off-limits again. And even if lawmakers don't impose new, limited drilling bans, the final decision on issuing new leases on the shelf would rest with Salazar.

Interior-FERC feud over offshore renewables winding down, Salazar says
NYT, March 16, 2009; http://www.nytimes.com/gwire/2009/03/16/16greenwire-interiorferc-feud-over-offshore-renewables-win-10147.html

By BEN GEMAN AND NOELLE STRAUB

A longstanding conflict between the Interior Department and the Federal Energy Regulatory Commission over offshore renewable energy development could be put to rest as soon as this week, Interior Secretary Ken Salazar said today.

Interior and FERC have been at odds for years over regulation of fledgling efforts to develop energy from offshore waves and currents. But a memorandum of understanding between the two may be imminent, Salazar told reporters.

"We will not let any of the jurisdictional turf battles of the past get in the way of our moving forward with a renewable energy agenda," Salazar said, adding that he recently met with FERC's chairman and that staff are trying to complete the document.

Attempts to reach a formal memorandum of understanding failed during the Bush administration as the agencies sought to reconcile FERC's licensing authority for hydropower with a 2005 energy law that handed jurisdiction over projects on the federal outer continental shelf to Interior's Minerals Management Service.

Salazar, who spoke by phone from Colorado, said he plans to review documents for the agreement when he returns to Washington today. He added that the agencies are trying to develop a regulatory framework that ensures they are not "stumbling over each other."

The issue is expected to surface at a Senate Energy and Natural Resources Committee hearing tomorrow that will include Salazar and FERC Commissioner Philip Moeller.

Interior is also working to complete final rules to govern regulation of offshore wind, wave and other renewables projects. A group of lawmakers from Delaware, New Jersey, Rhode Island, Maine and elsewhere wrote (pdf) to Salazar last week expressing concern about how delays in the rule will affect plans for wind projects.

The lawmakers expressed concern that FERC's current ability to permit offshore hydropower projects, combined with the absence of completed MMS rules, will allow "claim jumping" on rights to offshore tracts that wind developers have studied for years.

Oil and gas

Salazar also sought to return fire at critics who say the Obama administration has not done enough to promote domestic energy production, outlining events this week in which he will address oil and gas industry concerns.

In addition to his testimony tomorrow, he plans to travel to New Orleans on Wednesday to participate in a central Gulf of Mexico lease sale that covers 34.6 million acres. The area could produce up to a billion barrels of oil and enough natural gas to supply the United States' homes for a year, he said. He added that 12.5 percent of the revenue will go the Land and Water Conservation Fund to protect open space and build parks.

On Thursday, he said, he plans to meet with the board of directors of the American Petroleum Institute to promote an open dialogue with the oil and gas industry and explore "tremendous areas" to find common ground. "They are and will remain an important part of our energy future; we need to work together on common-sense solutions," Salazar said.

He also noted that the Bureau of Land Management has held seven onshore oil and gas lease sales in the last seven weeks, offering 830 leases that cover almost 1.2 million acres in the West. About 254,000 acres were sold, generating more than $32 million in revenues for U.S. taxpayers, he said. BLM will hold an additional 32 onshore lease sales this year, he added.

Salazar also noted that the U.S. Geological Survey soon will release a report that can help identify the best geologic formations in the country for carbon sequestration.

But at the same time, he did not back down from Obama's plan to 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 blueprint eliminates $31.5 billion in "oil and gas company preferences" over a decade.

"They are not needed," Salazar said. "It's simply a sense of fairness."

Senate Energy and Natural Resources Committee ranking member Lisa Murkowski (R-Alaska) used the confirmation hearing for Interior deputy secretary nominee David Hayes last week to rail against Obama's energy policies, saying the administration's 2010 budget blueprint is "a war on domestic production."

Salazar said he will travel to Alaska to study development and preservation issues there and has asked Murkowski to accompany him. But he indicated that the Obama administration would not change its stance against drilling in the Arctic National Wildlife Refuge. Murkowski would like to open it to development and has said directional drilling would allow pristine areas to be protected.

Salazar said that from what he has seen so far, directional drilling would not work well enough, but he added that it remains "an open question" and could be discussed. He said the administration sees ANWR as a special place. "There are special and treasured places we will not disturb," he said.

Salazar defends higher oil royalties, taxes
AP, March 16, 2009;
http://www.google.com/hostednews/ap/article/ALeqM5jfN7TDF02l3jsEUJd9oEVO894NkwD96V9QFG1

By H. JOSEF HEBERT

WASHINGTON (AP) — Interior Secretary Ken Salazar said Monday he would consider tapping oil from Alaska's Arctic National Wildlife Refuge if it can be done from outside the refuge's boundaries, leaving animals and other wildlife undisturbed.

But Salazar emphasized the Obama administration stands firm that the Alaska refuge, known as ANWR, "is a very special place" that must be protected and that he is not yet convinced directional drilling would meet that test.

Sen. Lisa Murkowski, R-Alaska, has introduced legislation that would allow oil companies access to oil beneath the Arctic refuge's coastal plain through directional drilling from platforms outside the refuge itself.

Murkowski contends such drilling would leave the refuge surface land undisturbed, protecting wildlife.

"The question of whether or not you can do directional drilling without impairing the ecological values of ANWR is an open question. Most of what I've seen up to this point is it would not be possible to do that," Salazar said in a conference call with reporters.

He said the directional drilling idea is "something that can be discussed" because of the advancements in the technologies in recent years.

But Salazar said protecting ANWR's ecology and wildlife is "not something we're going to change our position on" when considering future oil and gas production. "There are special places to be protected and ANWR is one of those," Salazar said when asked about Murkowski's proposal.

Meanwhile, Salazar said he will meet with major oil company executives on Thursday to reassure them that the Obama administration views oil as important to the country's energy future.

"My message to the oil companies will be simple. They are and will remain an important part of our energy future," said Salazar. "... We share much common ground. We need to have an open dialogue."

At the same time, Salazar defended proposals to end a manufacturers' tax break for the largest oil companies as well as higher royalties and new fees on oil pumped from federal waters.

"It's simply a sense of fairness," said Salazar.

Salazar said the taxpayer — like a private landowner — should get the maximum return from the oil and natural gas pumped from federal land and waters. As for some of the tax breaks, he said. "they are being taken away ... for a very simple reason because they are not needed."

Obama's proposed budget, unveiled last month, would impose a new excise tax and fees on companies that take oil and natural gas from federal waters and reimposes a tax — again largely targeting the oil industry — to pay for cleaning up Superfund sites. The administration also supports an end to a tax break for the major oil companies that is supposed to spur development of domestic manufacturing jobs.

"We're turning the page on a new level of responsibility in terms of how we're dealing with the fiscal realities of the country," said Salazar. "...Not everyone is going to be happy."

But it would not come as a surprise if many of the oil industry executives felt left out when it comes to Obama's energy priorities.

Obama's focus has been on the need to develop renewable sources — biomass, solar and wind energy and research into electric-hybrid transportation — and to shift away from dependence on oil. In a reversal from the Bush administration, Salazar has made clear he will move cautiously in allowing offshore drilling, although the sweeping ban on drilling across much of the country's coastal waters was lifted last October.

Salazar noted that the Minerals Management Service this week will put up for lease new areas of the central Gulf of Mexico that, he said, could produce a billion barrels of oil and 5 trillion cubic feet of natural gas. It is part of a new leasing approach approved by Congress in 2006 that provides nearby coastal states a large portion of the leasing and production revenue.

Obama admin, Congress focus on offshore drilling and renewable
E&E Daily, March 16, 2009; http://www.eenews.net/EEDaily/2009/03/16/1/

Ben Geman and Noelle Straub

Senior Interior Department officials will be on Capitol Hill tomorrow to discuss oil and gas drilling and renewable energy development on land and offshore as momentum builds toward possible comprehensive energy bills in the House and Senate.

In the House, the Energy and Mineral Resources Subcommittee will hold the latest in a series of hearings on petroleum development on the outer continental shelf, or OCS, that will feature an official with the Minerals Management Service, Interior's acting inspector general and a Government Accountability Office expert.

The House hearing is expected to explore allegations that oil companies are failing to produce energy from tens of millions of acres of existing leases on federal lands and waters even as the industry is pressing for new areas to be made available, among other OCS drilling issues.

Interior Secretary Ken Salazar is slated to appear tomorrow before the Senate Energy and Natural Resources Committee, where Chairman Jeff Bingaman (D-N.M.) plans to introduce and mark up a broad-based energy bill before the Easter recess. Bingaman's bill is expected to cover a range of energy efficiency, transmission, research and development issues.

But it remains unclear how Bingaman will address regulations that cover oil and natural gas on land or offshore. "The comprehensive energy bill we are working on will have an oil and gas supply component to it," said Bingaman spokesman Bill Wicker, declining to provide further details.

It appears unlikely the bill will try and redraw lines regarding where leasing can and cannot occur, which is in flux following the expiration of OCS leasing bans last year.

The Obama administration is still formulating its position on where new leasing may be allowed. In February, Salazar delayed a Bush-era proposal to allow much wider coastal leasing to study the issue further, while Bingaman in January said he would "like to know what their view is before we settle on ours."

Beyond leasing questions, a host of royalty and other issues surrounding oil and gas development are in play.

President Obama's fiscal 2010 budget plan calls for several changes, including new fees on nonproducing Gulf of Mexico leases, part of a "use it or lose it" strategy Democrats say is needed to encourage production from acreage already offered for leasing.

House Natural Resources Chairman Nick Rahall (D-W.Va.) has championed plans that would prevent companies from obtaining new federal leases unless they are already producing from their current leases or "diligently developing" them.

Industry officials have derided the idea as a gimmick. A top Chevron Corp. executive, in testimony to Rahall's committee last month, said the "existing regulatory process and basic economics ensure that leases are developed in a diligent manner."

Other plans in Obama's budget include new fees on companies to fund processing of permits for oil and gas drilling on public lands, and increasing the return from oil and gas production by revising the royalty system and adjusting rates.

Tough questions

Salazar will likely face some tough questions about onshore energy development from Republicans, who say his early moves as secretary have all been aimed at slowing production.

In early February, Interior canceled oil and gas leases on 77 parcels of federal land in Utah and launched a review to see whether they were appropriate for leasing. Also last month, Salazar halted Bush administration oil shale research and development leasing efforts, saying he would offer "new and fair" lease terms after seeking public input.

Salazar is still reviewing commercial oil shale regulations for millions of acres in the West that were put in place months before Bush left office, but he has been openly critical of them.

Senate Energy and Natural Resources Committee ranking member Lisa Murkowski (R-Alaska) used the confirmation hearing for Interior deputy secretary nominee David Hayes last week to rail against Obama's energy policies, saying the administration's 2010 budget blueprint is "a war on domestic production." She said punishing the oil and gas industry will not bring the age of renewable energy any faster.

Murkowski said she hesitated to bring up the issue at a confirmation hearing, but that she did not get many opportunities to directly address administration officials about it. Having Salazar before the panel this week will provide her another chance.

At the same hearing, Sen. Bob Bennett (R-Utah) went on a self-described "rant" over the Obama administration deciding "by fiat" to pull back the Utah leases. He said the process had taken years and had full environmental review, and that the Obama administration is sending a message that it "doesn't really care" about the law.

Hayes said Salazar is committed "with vigor" to responsible oil and gas production on public land and said many contentious development issues can be resolved by reaching consensus and using tools such as land exchanges, habitat conservation plans and others. The committee will vote on his nomination Wednesday (see related story).

Salazar also has focused on renewable energy on public lands, which he likely will emphasize at the hearing. Last week he signed a secretarial order formally establishing a task force to help the department identify specific renewable energy zones on public lands.

Interior will also work with other federal agencies, tribes and states to determine where transmission corridors are needed, Salazar said. The department has already identified about 5,000 miles of transmission corridors in the West and needs to "move that forward to conclusion," he said last week.

Senate focus on offshore renewables

The Senate hearing is also slated to delve into years-old questions about how federal officials will oversee fledgeling efforts to tap offshore renewable energy such as wind and wave resources.

The 2005 Energy Policy Act handed leasing and oversight to the Minerals Management Service, but questions remain about whether MMS will work with the Federal Energy Regulatory Commission.

In addition to Salazar, the hearing will include FERC Commissioner Philip Moeller, and a partner with Pacific Energy Ventures, an Oregon-based company seeking to develop offshore renewables projects.

Bingaman's spokesman said it is possible that the upcoming energy bill could include clarification to end the inter-agency dispute between FERC and MMS but said it depends what lawmakers learn from Salazar and FERC at the hearing. In addition, MMS is currently working to finalize a rule on offshore renewable energy leasing.

Nine Northeastern lawmakers -- including Delaware's delegation and both Rhode Island senators -- wrote to Salazar last week asking for fast action to finish the regulation.

The letter also calls on Salazar to prevent "claim jumping" on rights to offshore tracts that could be used for wind projects. "Specifically, we are concerned that -- prior to the final issuance of the overdue offshore wind energy rule by the MMS -- those seeking to develop other renewable resources will effectively block access to areas that have been under study for years by offshore wind developers," the letter states.

The lawmakers say this is a problem because FERC today can issue offshore permits for ocean hydropower projects in waters that offshore wind developers have been studying for years, but the offshore wind developers cannot file applications absent the MMS final rule. The letter likens the issue to speculators scooping up domain names in the early days of the Internet and then reselling them at inflated prices.

Senate schedule: The Energy and Natural Resources Committee hearing is tomorrow at 10 a.m. in 366 Dirksen.

Witnesses: Interior Secretary Ken Salazar; Philip Moeller, commissioner, Federal Energy Regulatory Commission; Joanna Prukop, Cabinet secretary, Energy, Minerals, and Natural Resources Department, state of New Mexico; Dan Arvizu, director, National Renewable Energy Laboratory; Robert Bryce, author and energy journalist; George Cooper, Theodore Roosevelt Conservation Partnership; Steve Kopf, Pacific Energy Ventures.

House schedule: The Energy and Mineral Resources Subcommittee hearing is tomorrow at 10 a.m. in 1324 Longworth.

Witnesses: Chris Oynes, associate director, Offshore Energy and Minerals Management Program, Minerals Management Service; Mary Kendall, acting inspector general, Interior Department; Frank Rusco, director, Natural Resources and Environment, Government Accountability Office; and Tom Fry, president, National Ocean Industries Association.