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California Chronicle, May 16, 2009; http://www.californiachronicle.com/articles/view/102612

Drilling activity continues to diminish
Oil and Gas Journal, May 15, 2009; http://www.ogj.com/display_article/362406/7/ONART/none/DriPr/1/Drilling-activity-continues-to-diminish/

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E&E News, May 15, 2009; http://www.eenews.net/eenewspm/2009/05/15/1

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LA Times, May 14, 2009; http://www.latimes.com/business/nationworld/wire/sns-ap-us-calif-offshore-drilling,1,3136926.story

U.S. Gulf gas hydrate find most promising yet –DOE
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Lawmakers voice support for budget but question offshore provisions
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Study before drilling seas
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Garamendi Says the Coast of California is Now Up for Sale to Big Oil
California Chronicle, May 16, 2009; http://www.californiachronicle.com/articles/view/102612

SACRAMENTO - Lieutenant Governor John Garamendi, the chair of the State Lands Commission, issued the following statement on the May Revise proposal to sell PXP, the Tranquillion Ridge oil lease, for $100 million.

"The oil company has essentially offered to loan $100 million dollars to California in exchange for granting the first new oil drilling lease in California since the Santa Barbara oil spill 41 years ago. Furthermore the $100 million loan must be repaid by forgiving future royalty payments to the state," Lieutenant Governor John Garamendi said. "This is a clear signal to the federal administration that California is willing to issue new oil drilling leases off the California coast opening the door for the federal government to drill baby drill by also issuing new oil drilling leases. California should be a leader in renewable energy production, not a producer of a polluting product best left in the 20th century."

Background from January 29, 2009 State Lands Commission meeting

On a two-to-one vote in January, the State Lands Commission denied the first new oil lease in state waters in almost 40 years.

Garamendi, former Deputy Interior Secretary under President Bill Clinton, argued strongly that the plan would signal that California wants to open offshore drilling and supporters would push for more oil exploration on the West Coast.

"I refuse to let this lease move forward," Lieutenant Governor John Garamendi said. "Approving a drilling proposal will undercut congressional efforts to reintroduce a federal moratorium on offshore oil drilling earlier lifted by the Bush Administration."

The Lieutenant Governor chairs the three-member State Lands Commission, which considered the request to lease land to the Plains Exploration & Production Company to expand drilling off the coast of California.

The Lieutenant Governor had earlier talked to members of the California congressional delegation who had significant concerns about the lease undercutting their attempts to reintroduce a federal moratorium on oil exploration off the coast.

The State Lands Commission´s staff last week recommended voting down the lease, because there were no sound guarantees that the company would have to shut down the plan.

An archived video and agenda of the meeting is available here: http://www.cal-span.org/cgi-bin/archive.php?owner=CSLC&date=2009-01-29.

Lieutenant Governor Garamendi has an accomplished environmental record:

As chairman, Garamendi led the State Lands Commission to reject the proposed Liquefied Natural Gas (LNG) terminal off the Oxnard/Malibu coast, highlighting the plan´s deficiencies in protecting the environmental health of the communities, the ocean and coastline.

As a member of the Ocean Protection Council, Garamendi developed a plan & championed legislation (Pacific Protection Initiative; 5 marine debris bills to reduce ocean pollution) to greatly decrease pollution of California beaches from plastic refuse, reducing the danger to California´s beaches and marine life.

As Deputy Secretary of the U.S. Department of the Interior, Garamendi oversaw the Department´s eight bureaus and helped develop national global warming policy with Vice President Al Gore and Interior Secretary Bruce Babbitt. He also was the key negotiator for water disputes throughout California and brought the Riverside Habitat Conservation Plan to successful implementation, which protected 66,000 acres of rare habitat. It is a national model.

As a California legislator, Garamendi authored the Tahoe Bond Act (1982), allowing the State to acquire and preserve private land in the Tahoe Basin. Since then, he has continued to help lead the state´s efforts to protect the quality and clarity of Lake Tahoe´s water, shore zone, natural habitat, and regional development activities.

Drilling activity continues to diminish
Oil and Gas Journal, May 15, 2009; http://www.ogj.com/display_article/362406/7/ONART/none/DriPr/1/Drilling-activity-continues-to-diminish/

Sam Fletcher

HOUSTON, May 15 -- The US rig count continued to contract, down by 10 to 918 rotary rigs working this week, less that half of the 1,862 units that were active in the same week a year ago, said Baker Hughes Inc.

Land operations shouldered the latest loss, down 13 rigs to 855 drilling. Inland-water activity remained unchanged with 7 rigs working. Offshore drilling increased by 3 to 55 rotary rigs working in the Gulf of Mexico out of a total of 56 on federal offshore leases.

Of the rigs still working, 728 are drilling for natural gas, down 2 from the previous week. The number drilling for oil fell by 9 to 181. There were 9 rigs unclassified. Horizontal drilling was down 1 to 379 rigs. Directional drilling totaled 160 rigs, 4 fewer than last week.

Texas continued to lead the decline among major producing states, down 13 rigs with 342 still working. Arkansas lost 4 rigs to 44. North Dakota and New Mexico laid down 3 rigs each, to respective counts of 33 and 31. California was down by 1 to 20. Oklahoma was unchanged at 84.

Wyoming and Alaska increased by 1 rig each to 36 and 6, respectively. Colorado was up 2 to 45 rigs working. Louisiana's rig count jumped by 8 to 146. In other states of interest, Pennsylvania gained 3 to 31. Utah increased by 1 to 15, and West Virginia was unchanged with 23 rotary rigs drilling.

Canada's rig count increased by 5 to 68 this week, down from 132 units working a year ago.

While assessing several oil field service companies this week, James C. West at Barclays Capital Inc. in New York had some general observations about drilling markets. "The natural gas market remains difficult, and we believe a significant recovery in gas-directed activity is unlikely until mid-2010. A modest pick-up in oil-directed activity near term and aggressive cost cutting should partially mitigate this weakness," he said.

Commenting on Basic Energy Services Inc. (BAS) in Midland, Tex., West said, "Although conditions have stabilized somewhat within the well servicing market and pricing appears to be firming, we continue to believe natural gas fundamentals will not support a meaningful recovery in utilization until mid-2010." He said, "While maintenance activity has picked up, utilization is expected to remain low, particularly in the Rockies and Midcontinent. In response, BAS stacked one third of its well-service fleet and is scaling back operations in less active markets."

In his assessment of Parker Drilling Co., Houston, West said, "While utilization has recently improved for Parker's US barge fleet, we believe business conditions for the company's domestic-oriented businesses are likely to remain challenging into 2010, given the likelihood of continued weakness in natural gas activity." He noted, "Around one third of Parker's international fleet will come off contract in 2009; however, bidding activity remains high, and many rigs are likely to find work with some gaps in between contracts. Southeast Asia is the most challenging region, while the Americas is relatively strong."

Looking at offshore marine services, West said, "We believe weakness in the shallow-water Gulf of Mexico and the North Sea will continue to pressure vessel day rates and utilization during 2009." He said, "The shallow-water gulf has become increasingly challenging—average marine vessel utilization fell to 81% from 88% in the fourth quarter, with significant declines in gulf-levered asset classes. We believe this market will remain difficult through 2009. Deepwater utilization and day rates are relatively stable."

Waxman, Markey release cap-and-trade bill
E&E News, May 15, 2009; http://www.eenews.net/eenewspm/2009/05/15/1

Darren Samuelsohn and Ben Geman

Democratic leaders of the House Energy and Commerce Committee took a big step toward overhauling U.S. energy and global warming policy today with the release of a 932-page bill that is expected to win approval next week after a marathon markup.

Meanwhile, a draft list obtained by E&E shows Republicans are preparing for the markup with nearly 450 amendments targeting individual Democratic lawmakers who may be uncomfortable with supporting such stringent new environmental requirements.

The Democrats' climate bill, H.R. 2454, has been the subject of months of negotiations between Energy and Commerce Chairman Henry Waxman (D-Calif.) and his top energy lieutenant, Rep. Ed Markey (D-Mass.), and a group of about a dozen moderate and conservative lawmakers from the South, Rust Belt and Intermountain West. Waxman and other key members say they expect passage next week, perhaps on a party-line, 36-23 vote.

Bit by bit, Waxman and Markey have made concessions from their original draft to satisfy those members, including removal of the so-called low-carbon fuel standard, according to Rep. Gene Green (D-Texas) and a petroleum industry source.

The original proposal would have required refiners to ensure that the carbon content of fuels sold in the United States between 2014 and 2022 would be no higher than a 2005 baseline level, and starting in 2023, they would have to have lower emissions by at least 5 percent. From 2030 onward, the reduction would have to be 10 percent.

Green and other lawmakers allied with the refining sector had several concerns about the proposal and were unable to reach an agreement with Waxman. "Although there were productive conversations with the chairman, unfortunately we were not able to reach an agreement on the LCFS and the Low Carbon Fuel Standard will be removed from the legislation," Green said in a statement today.

The removal is a win for refiners, which have alleged that the bill's various new requirements will impose difficult burdens and increase costs. "It is an improvement. It is progress," said a petroleum industry source, who added, however, that the industry would still oppose the overall bill.

GOP markup strategy

Opening statements for the full committee markup will begin at 1 p.m. Monday, giving all 59 members on the committee a chance to say their piece about a bill at the center of President Obama's domestic agenda.

Republicans are flirting with the idea of employing a committee rule that would force the Democratic clerk to read the entire bill. "If that's the case, you've got close to a 1,000-page bill, you're probably talking about 12 to 14 hours of reading," Rep. Bart Stupak (D-Mich.) told reporters today. A Republican committee aide said no decisions have been made on that strategy.

Looking beyond Monday, Waxman is expected to manage the markup by moving through the bill title by title. Late nights are expected Tuesday and Wednesday, with Thursday's session expected to stretch into Friday as Democrats try to pass the legislation before the start of the weeklong Memorial Day recess.

Democratic lawmakers are preparing their own series of amendments, though what they have planned is nothing compared to the expected GOP amendment onslaught.

According to the draft list, opponents of the bill want to make a number of significant changes to the underlying legislation. One approach, designed to appeal to the moderate and conservative Democrats, would change the greenhouse gas emission reduction targets to less aggressive limits: 6 percent by 2020, 44 percent by 2030, and 80 percent by 2050.

Republicans have also drawn up dozens of changes that would allow individual states the choice of opting out of the climate law -- or allow them to give free allowances to electric utilities in a specific state. Other GOP amendments come with some partisan bite: making underground storage facilities for carbon dioxide at Nevada's Yucca Mountain and at the Presidio in House Speaker Nancy Pelosi's San Francisco district.

Key Democrats say they will resist the Republican amendments, even the ones that may look good back home in their districts. "They simply do not want to work constructively in this process," said Rep. Rick Boucher (D-Va.). "The amendments they'll be offering will be designed to obstruct. I will resist those amendments. I will ask them be defeated, as will Chairman Waxman, and so that will be the committee process."

Energy Secretary Chu reaction
Also today, Energy Secretary Steven Chu welcomed progress on the House climate bill, even though it falls short of Obama's goals in several key areas. For example, the House bill has a lower renewable electricity mandate for utilities. It also provides some 85 percent of the emission allowances for free to industry and other interests, while Obama supported a 100 percent auction of the credits.

Chu, who spoke to reporters after addressing the National Coal Council, said he was not concerned about the giveaway of a substantial number of allowances, explaining that the main feature of the legislation is a requirement that carbon dioxide emissions get ratcheted down sharply over time.

"That still provides a lot of pressure, and it is a long-term signal that says you have got to develop the technologies that allow you to decrease your emissions of carbon," Chu said. "That part is something that I think will be driving this."

Asked whether the renewable electricity standard was too weak, Chu replied: "Waxman, Markey and their colleagues are trying their best to bring along Congress. It is very important that we start a comprehensive energy and climate change bill."

He added, "There are two camps. There are camps that say it has got to be really tough, and there are people who say it is not ideal, but we have to get going on it."

Schwarzenegger proposes to raise money by reviving oil project off California coast
LA Times, May 14, 2009; http://www.latimes.com/business/nationworld/wire/sns-ap-us-calif-offshore-drilling,1,3136926.story

LOS ANGELES (AP) — Gov. Arnold Schwarzenegger is pushing legislation that he believes would raise $1.8 billion for cash-strapped California by allowing the first new oil drilling project off the state's coast in 40 years.

The governor's proposal would revive a project for the Santa Barbara coast that was rejected by the State Lands Commission in January. This latest fundraising suggestion comes on the heels of other money-making ideas that included selling state-owned properties such as San Quentin State Prison and the Los Angeles Memorial Coliseum.

The governor's legislation would give the Department of Finance — whose representative on the commission was the lone vote in support of the drilling project — authority to reconsider the proposal.

"It's got tremendous environmental benefits, and we can't turn a blind eye to the fiscal benefits," said Tom Sheehy, who represented state finance director Michael Genest in the commission's 2-1 vote.

The governor's support for the drilling project, which would expand drilling off Platform Irene in the Santa Barbara Channel, does not indicate a change in his opposition to offshore drilling, Sheehy said. The proposal would not violate the terms of the state's drilling moratorium, which includes an exception for any state oil field that drains into a federal oil field, he added.

The project, which was unveiled last year, enjoyed unprecedented support from many anti-oil drilling environmental organizations. Several key groups in Santa Barbara agreed to lobby for the project after reaching an agreement with the oil company, Houston-based Plains Exploration & Production Co. Under the deal, the company would provide money for the state and a commitment to shut down its operations countywide by 2022.

Sheehy estimates the state would immediately receive $100 million and a combined $1.8 billion over the time span of the project.

Linda Krop, the attorney who represented the Santa Barbara environmental groups, said this latest development took her by surprise. The groups she represents are opposed to the governor's proposal, she said.

"Our proposal was vetted through a public hearing process and there was an opportunity for public debate," she said. "We do not support a process where an oil project can be approved through a budget revision."

Scott Winters, a Plains' spokesman, did not immediately return a call seeking comment. While company representatives have said they do not plan to empty the reserve, a competing company estimated the reserve could be as large as 250 million barrels worth billions of dollars in today's prices.

Assemblyman Pedro Nava, D-Santa Barbara, said the success of the governor's proposal hinges on the success or failure of several ballot initiatives on Tuesday that could make more money available to the state.

Nava was among several legislators in the state Assembly and Coastal Commission who raised concerns during the drilling project's approval process that the proposal could encourage even more drilling along California's coast in the future.

"If the initiatives fail, there will be greater pressure to permit offshore oil drilling if the state receives royalties from the drilling," he said.

U.S. Gulf gas hydrate find most promising yet –DOE
Reuters, May 14, 2009; http://www.reuters.com/article/rbssEnergyNews/idUSN1469415320090514

By Bruce Nichols

HOUSTON, May 14 (Reuters) - A U.S. research team has found the most promising natural gas hydrate deposits yet under the U.S. Gulf of Mexico, improving chances the ice-like formations will become a major energy source, scientists said on Thursday.

"It's very encouraging. We consider this expedition a major shift in our understanding," said Timothy Collett of the U.S. Geological Survey, a leader of the research effort.

"What's unique about the Gulf of Mexico accumulations identified is this. It's the first time we've seen highly concentrated hydrates in conventional sand reservoirs that could be commercially producible," Collett said.

The program seeks to determine by 2025 how much producible hydrate exists in the United States and whether it can be added to society's energy options, said co-leader Ray Boswell of the U.S. National Energy Technology Laboratory.

Gas hydrate is almost pure methane mixed with water turned to ice by low temperatures and high pressures in permafrost or under the sea. It exists in vast quantities around the world but so far has been unproducible as an energy resource.

Researchers have been studying gas hydrate for years, but deposits examined have been either too thin or too trapped in rock to be commercial, or so shallow as to be environmentally risky to produce.

Methane is a potent global-warming gas and can be fatal if breathed in heavy concentrations.

Collett said the newly found deposits are more promising commercially because they are sizable and located in porous, permeable sands like those from which conventional oil and gas are extracted.

They also are less risky environmentally than shallower hydrate formations because they are trapped under impervious shales more than 2,000 feet under the seabed, Boswell said.

The program, which includes the U.S. Minerals Management Service and an industry team led by Chevron Corp (CVX.N), used seismic data to try to locate promising hydrate deposits in the Gulf.

An important finding was that the drilling validated predictions made from the data, Collett said.

From mid-April to early May, a 21-day expedition drilled seven wells in three locations in Gulf waters 4,800 to 6,600 deep, areas the MMS calls Walker Ridge, Green Canyon and Alaminos Canyon for oil and gas industry purposes.

Four of the wells found high concentrations of hydrate in porous, permeable sands. Two found low concentrations of hydrate in promising sands. One found promising sand but no hydrate.

Among the questions yet to be answered are what concentrations of hydrates at what depth in what kind of reservoir sands are easiest to produce, Boswell said.

Engineering and technology also must be developed to produce hydrates, although industry already produces oil and gas from deeper waters and much deeper wells, the scientists said.

Lawmakers voice support for budget but question offshore provisions
E&E, May 14, 2009; http://www.eenews.net/EEDaily/2009/05/14/7

Noelle Straub

House appropriators yesterday said they generally approved of the Interior Department's proposed $12 billion budget for 2010, although they had questions for Interior Secretary Ken Salazar about several offshore oil and gas provisions.

Interior Appropriations Subcommittee Chairman Norm Dicks (D-Wash.) said he welcomed with "great pleasure" the budget request he characterized as a "remarkable shift in priorities" from the Bush administration. Dicks praised numerous provisions including increased funding for lands and parks, renewable energy, a new youth initiative, and climate change research and mitigation. He predicted Congress would make some adjustments to the budget, likely including more money for wildlife refuges.

"This is a budget where I can say to [Appropriations Chairman Dave] Obey, I can live with this budget," Dicks said. "I'm very pleased with the budget."

Likewise, ranking member Mike Simpson (R-Idaho) said, "Overall, this is probably a pretty good budget."

Offshore concerns
Republicans asked Salazar about an administration proposal to impose a new $4-per-acre fee on companies in the Gulf of Mexico when oil and gas leases are in "non-producing status." The lawmakers wanted to know how the department would define "non-producing."

Salazar said the term has not yet been defined and that the department would work closely with Congress to write "common-sensical" legislation. He agreed with Simpson and Dicks that it sometimes takes a few years for exploration and investment before drilling can commence and said "that reality has to be factored in."

Salazar said the department would seek a plan along the lines of water laws in the West that incorporate a "use it or lose it" doctrine, such as in Colorado, which requires abandonment after 10 years of non-use. "Having a fee essentially creates, from our point of view, a sense of diligence in terms of moving forward, so hopefully it will incentivize people to move forward and do exploration and development," Salazar said.

Simpson asked about the new five-year offshore plan Interior is currently considering to cover 2010-15. Salazar earlier this year extended until September the plan floated by the Bush administration just before leaving office. Simpson asked whether the Obama administration's version would contain a moratorium on offshore drilling.

"We are going through a very thoughtful process now," Salazar said. "We are taking a comprehensive approach in assembling information, data and input but do not at this point have a plan, whether it's moratorium or not-moratorium or defining areas where it's going to be appropriate to drill."

Rep. Tom Cole (R-Okla.) asked about the proposed repeal of tax incentives for the oil and gas industry, saying they would cause a marked decline in domestic production. In reply, Salazar said, "We need to make sure we are getting a fair return back to the American citizen" but added that the administration will work with Congress on the issue.

Cole also questioned Salazar about a proposal in the 2010 budget for a new excise tax on certain oil and gas produced offshore in the future. Salazar said the proposal concerns leases issued in the Gulf of Mexico during the late 1990s that are the subject of litigation.

"We have two ways of resolving the issue," Salazar said. "One is to pursue the legal remedies, which ultimately here is a pending appeal to the United States Supreme Court, and the other alternative is to try to figure out some legislative fix to address that particular issue. And so we are working with OMB, and obviously working with Congress as we figure out how exactly we're going to move forward on this issue."

The 5th U.S. Circuit Court of Appeals denied a government request last month for an en banc review of a three-judge panel's January decision in Kerr-McGee Oil & Gas Corp. v. U.S. Department of the Interior that could allow Gulf of Mexico oil and gas producers to jointly forgo billions of dollars in royalty payments.

Lawmakers also asked Salazar about an April ruling by the U.S. Circuit Court of Appeals for the District of Columbia that vacated Interior's 2007-12 outer continental shelf leasing program. Interior wants the court to change or clarify the ruling to avoid "severe disruptions" in offshore oil exploration while the department complies with judges' orders to revise an environmental analysis underpinning its leasing program.

Salazar said it is a "very important question and a very difficult one to figure out what it was that the court intended to do." He said the court decision can be read to "essentially say that the entire OCS five-year plan has been thrown out and that the nearly 2,000 leases in the Gulf Coast and in Alaska that have been issued essentially have been called into question."

He said Interior is waiting on a response from the court and that the loss of revenue would be in the billions of dollars if the court throws out the plan.

Why he wanted the job

At the end of his opening statement, Salazar said he has gotten many questions from friends and colleagues about why he gave up his "comfortable" Colorado Senate seat to become Interior secretary, rather than secretary of State or another position. He noted that he likely could have won re-election in 2010.

"I would rather be secretary of Interior because of the fact that at the end of the day we are dealing with all of our 305 million Americans, with all of our planet, with issues that ultimately are going to make a huge difference not only for ourselves but for generations to come," Salazar said.

Salazar weighs agency reorganizations

E&E News, May 13, 2009; http://www.eenews.net/eenewspm/2009/05/13/3/

Noelle Straub

Interior Secretary Ken Salazar today said he is considering a reorganization of the agencies he oversees -- with the Bureau of Land Management and the Minerals Management Service being prime targets.

Given recent scandals at MMS and reports by watchdogs showing major deficiencies in federal royalty collections, Salazar said he would concentrate on agencies that oversee energy resources. But even the National Park Service and the Fish and Wildlife Service will come under scrutiny, he told the House Interior Appropriations Subcommittee.

Interior will ask "why do we have different regions, are we organized in the right way, would it make more sense to be organized along major watersheds or the different ways in which we can do that," Salazar testified. "I think it's important at the beginning of the administration to really take a hard look at those issues, and I will be doing that once we have our full management team in place."

After the hearing, Salazar said President Obama had instructed Cabinet members to look for ways to make government function more efficiently.

"So we will look at how we are organized to see whether we can do a better job, to see where there are places where we can reduce costs, to see where we can make a better investment," he said. "That's all part of what we're going to do with a broad management review of the department of Interior."

Salazar said he has some general ideas for restructuring agencies that collect royalties but did not offer specific proposals.

"The place where we are most focused on looking at potential reorganization has to do with MMS and BLM," he said. "And we don't have our people in place yet, so we're looking at different concepts but don't have anything specific."

While other agencies may face less dramatic changes, they still may see some significant shifts.

"I think, by and large, the organizations as they exist, the National Park Service and the U.S. Fish and Wildlife Service, they will remain the same, with the exception that we may do some realignment, for example, of regions or allocation of resources. We should go through all our programs and see which ones make sense and see which ones may have outlived their usefulness. So we'll do that across the department."

Rep. John Olver (D-Mass.) had asked whether Interior plans to close a Park Service office in Boston, but Salazar said he was not aware of any effort to do so.

It may be some time before the secretary has his team in place to begin the management review. Besides Salazar, the Senate has confirmed one other Interior nominee, Tom Strickland as Interior assistant secretary for fish and wildlife and parks. A Senate bid today to bypass the "hold" on Interior deputy secretary nominee David Hayes by two Republicans failed by three votes.

Fred Smith Talks Green: Helps the environment and Fedex's bottom line
The Memphis Daily News, May 13, 2009; http://www.memphisdailynews.com/editorial/Article.aspx?id=42467

Bill Dries

Fred Smith is going green. In the case of the FedEx founder, however, it's a different shade – something like military fatigue green.

Smith is reframing the push for alternative fuels and energy from a discussion of "what ifs" to a national security issue.

Electric vehicles and biofuel incentives are part of a plan Smith admits is controversial. It includes nuclear energy, a carbon tax and maxing out domestic oil exploration.

Smith is co-chairman of a coalition of corporate executives and retired military generals called the Energy Security Leadership Council. The other co-chairman is retired general and U.S. Marine Corps commandant P.X. Kelley.

In two speeches this year, one at the National Press Club in February and the other to a conference at the University of Memphis last month, Smith continued the ESLC bid to set specific goals for American energy independence and take the green movement from theory and individual practice to national policy.

After terrorism and nuclear proliferation, Smith and the council rank the nation's dependence on foreign oil as the "largest national security risk in front of the United States."

Smith and Kelley wrote a column for The Washington Post in the summer of 2006 that began with a question.

"Could a mere 4 percent shortfall in daily oil supply propel the price of a barrel to more than $120 in a matter of days?" they wrote. "Such a rapid rise in fuel costs would have profound effects that could severely threaten the foundation of America's economic prosperity."

Two summers later, they turned out to be off the mark by only $27 a barrel.

"People forget that while subprime mortgages and CEOs and all of these other risky instruments and problems with Fannie Mae and Freddie Mac and all of the other things you've read about were the bonfire that's consumed our economy, the match that lit it off was $147-per-barrel oil, which reached its peak last July," Smith said at the April 20 supply chain conference at the University of Memphis' FedEx Institute of Technology. "Each of the five major recessions since the first oil embargo in 1973 have been coincident with a significant hike in fuel prices."

Toward the end of the Bush administration last year, the ESLC was instrumental in helping win passage of the first increased standards for fuel efficiency in cars in 20 years.

“We spent 20 years from the last time the country increased fuel efficiency standards, which all of my free market friends argue against with me,” Smith said. “Nobody is more free market than I am. FedEx is a creature of deregulation. … This is not purely an economic issue. It’s a national security issue.”

Interests to protect

The five recessions and the five corresponding spikes in fuel prices span the life of FedEx, the cargo innovator Smith founded in Little Rock in the early 1970s and that, soon after, moved to Memphis.

FedEx uses a lot of oil in its air and ground operations. The company has almost 700 aircraft in its entire operation and runs more than 80,000 vehicles of different types, Smith said. Aviation is the most energy intensive use FedEx has.

FedEx Executive Vice President William J. Logue told a U.S. Senate committee in 2007 that FedEx Express alone consumed more than 1.3 billion gallons of fuel in fiscal year 2006.

And Smith said that has propelled the company’s own quest through the years to find and even encourage research and development of more fuel-efficient vehicles as well as those that use alternative fuels.

The speech at the University of Memphis was the first part of an unusual two-day set of public comments from Smith. The next day he attended an executive session of the Memphis City Council at the council’s invitation. The council solicited Smith’s advice on how government could operate more efficiently.

His answers to those questions were specific and he was careful not to stray far from the questions.

Smith’s remarks on green as a national security issue were heavy on specifics even though Smith was talking extemporaneously.

“Over half of our $600 billion-plus military budget every year is spent for the sole purpose of protecting the oil trade,” Smith said as he noted complaints about the cost of a carbon tax, which he favors. Smith said there are no similar concerns about “having to have a military establishment of the size that we have that’s gotten us involved in two wars in the Middle East, which is almost exclusively because of our dependence on petroleum coming from that part of the world – not totally – but almost exclusively.”

Smith, who backed John McCain in the 2008 GOP presidential primaries, even went back to the 1950s Eisenhower administration benchmark that set anything above a 20 percent dependence on foreign oil as a “grave national security risk.” That dependence is now at 60 percent.

“That might be in a perfect world not a problem. But we don’t live in a perfect world,” Smith told the group of about 100 people at the University of Memphis. “And, unfortunately, contrary to a great deal of what you hear about in terms of the oil business, it’s not our great integrated oil companies like Chevron and Exxon who control most of the oil.

“Ninety-percent of the proven oil reserves in the world belong to national oil companies. And many of those national oil companies are outright hostile to the United States, or at least indifferent to our standard of living and our national interests.”

An electric plan

Smith’s suggestion as well as that of the leadership council includes a goal of converting the nation’s short-haul commercial vehicle fleet to electrically run cars and trucks. That goal also would include personal cars and trucks.

“The United States should as a matter of national policy move toward a largely electrified short-haul transportation system,” is how Smith put it.

In a February speech at the National Press Club in Washington, Smith said electrification would be a “sea change” made possible in part by technological advances in the past 25 years that have given longer life to batteries. But he said the transition still will be difficult.

“We cannot encourage the purchase of electric cars and then not have the generation capacity to power them, the transmission capacity to deliver that power to the consumers who need it, or the smart grid technology that will be required to handle those cars as we plug them in and out of the grid,” he said.

At Syracuse University in New York, Patrick Penfield has been writing for several years about the emergence of this turn in the green movement.

“In the next several years, you will be hearing more about supply chain sustainability or the green sustainable supply chain,” he wrote in August 2007.

The assistant professor at the Whitman School of Management at Syracuse also cast the validity of the move in different terms.

“The whole idea of a sustainable supply chain is to reduce costs while helping the environment,” he wrote.

It’s no accident that reducing costs is mentioned first.

On the second day of the green supply chain conference at the University of Memphis, Mike Bruns, the president of Memphis-based Comtrak Logistics, said lower fuel consumption is at the root of green considerations for him and others in the freight business.

“I guess I could sit here and tell everybody that I’m a real believer in green – and I guess I am,” Bruns said. “But I’m really a believer in making money. And it’s generally interesting that everything we’re doing to make some money at Comtrak has everything to do with being more green.”

At the same panel discussion, Mark Schulze, a vice president of BNSF Railway Co., one of the city’s major rail presences, was more direct.

“I haven’t seen one decision made yet that was environmentally based,” he said. “It gets down to cost and on-time performance. … But there is a mandate to lower our diesel fuel consumption, which will benefit us with (fewer) greenhouse gas emissions.”

Price-driven alternatives

Penfield told The Memphis News that converting to such a green supply chain will be “long and arduous.” He also said interest and commitment could wane in direct relation to the price of gas.

“When gas prices are high, there’s actually a benefit to the greening of the supply chain,” Penfield said. “When gas prices are low, that whole impetus is taken away. Nobody wants to talk about it. Nobody really wants to figure out ways to help the environment.”

Smith, however, saw differences in last summer’s gas price spike. There was the part that China and India played in upping the demand for gasoline.

“Prior to last summer’s run-up, you could anticipate that the crisis would come, demand would go down and you’d come back and to some degree it would be business as usual,” Smith said. “On the supply side, there really was little alternative to the continued consumption of fossil fuels. But in the interim … the development of battery technology fueled … by the proliferation of laptops and PDAs and cell phones has created a whole new generation of batteries that have the amount of storage that will allow the daily use of a personal automobile to be tolerant by batteries.”

That means traveling 40 miles on a single charge.

FedEx teamed with the Environmental Defense Fund in 2004 to launch the first commercial hybrid truck. Smith calls it a PUD – pickup and delivery vehicle. It’s a step-in delivery van that has 700 cubic feet of space. It is 42 percent more efficient than diesel-powered delivery vans and its emissions are 90 percent less. The FedEx fleet uses 300 of them.

“The problem with the vehicle is it is more expensive than the conventional diesel,” Smith said.

It’s more expensive by about $30,000.

“When the price of fuel was up to $4 or $5 per gallon for diesel, you actually were getting close to getting a reasonable return on investment for that,” he added. “But as fuel has come back down – and it will go back up in all probability – it’s very hard to justify.”

Victoria Mills, the managing director of the EDF’s corporate partnerships program, said the FedEx request for proposals on the hybrid trucks was nevertheless an important step.

“That’s where the transformation started,” she said. “Then within two years, no fleet trade show was complete without a hybrid offering.”

By the EDF’s count, the 300 hybrid PUDs FedEx has are among 1,200 hybrid trucks either on the road or on order in North America. The FedEx fleet of hybrids is one of 85. And there are 36 makes and models.

“What we’re seeing is not just rising orders, but a diversification in the marketplace,” Mills said by phone from Boston. “That reflects confidence in the technology and a much broader trend in business to address climate change.”

Seeking a standard

Penfield said at least for now, the diversity has a downside as well.

“We want to move to batteries. But these different automobile manufacturers are all using different batteries,” Penfield said. “How do you charge it up?”

Penfield talked about charging stations for battery powered vehicles being used in Israel in which motorists simply swap spent batteries for newly charged ones.

“The problem is getting everybody to use that battery,” he said. “That’s an issue. There’s no standard. … Nobody has a path to follow.”

Smith told the National Press Club in February it’s important that whatever standards are set for a national grid don’t create a new dependence on imported technology.

“The investments – private and public – involved in electrification could have a tremendous positive effect on the American economy – if we do everything in our power to encourage the creation of new manufacturing capacity and jobs here at home,” Smith told that gathering. “That means, among other things, reducing the corporate tax rate and changing the tax code to allow the expensing of capital equipment. If we are going to drive battery operated cars, let’s make sure that as many of them as possible are built here in the United States.”

Mills concedes Penfield’s point about the impact changing oil prices have on the demand for hybrids as well as the expense of hybrids at this point.

For business owners who run or manage fleets of vehicles, the main issues are if the new additions to the fleet pay for themselves and over what period of time.

Mills and Smith agree that until the gap in price between conventional short-haul vehicles and the hybrids is bridged, government incentives are essential.

“The difference between having incentive help and having no incentive help can be five to 10 years off the payback of one of these trucks,” she told The Memphis News. “New York, for example – their program will fund 80 percent of the incremental cost of a hybrid truck. At the federal level, money from the stimulus bill has gone into what is called the Diesel Emission Reduction Act (DERA).”

The DERA regulations have spun off a business of organizing hybrid or alternative-fuel fleets for companies integrating them into their overall fleets and capturing the federal incentives.

Tennessee Gov. Phil Bredesen took a test drive last month in an electric car made by Nissan. The Japanese carmaker with a Tennessee presence plans to begin selling such cars for commercial and government fleets in the U.S. next year.

Bredesen has proposed a network of public charging stations for electric cars in a partnership that would involve state and local governments as well as carmakers. At the test drive, he also talked of research on solar-powered charging stations in Nashville, Chattanooga and Knoxville. Bredesen said he hopes to garner some of the federal stimulus funds for the effort.

California recently enacted a voucher program for short-haul vehicle fleets that contributes $10,000 to $40,000 per vehicle for new hybrids.

“Over the road” longer-haul trucks remain problematic if the goal is no diesel fuel.

“We don’t see in the near term any technology that will displace the use of diesel power plants,” Smith told the Memphis audience. “But we have many initiatives to reduce the energy consumption of our over-the-road vehicles.”

Hybrid technology for over-the-road vehicles still involves using conventional diesel fuel, Mills said.

“That was originally the last place people thought to look for hybrid applications,” she said. “But, in fact, Walmart has been testing out some hybrids in long-haul applications, just because when you drive that many miles, smaller percentage gains in fuel economy add up to huge cost savings.”

In one case, the hybrid part “simply captures the energy from braking and stores it in a battery where it can be used to supplement energy from the diesel fuel.”

Here to stay?

For all of the technological changes being explored and garnering attention as well as financing for now in the corporate world, Smith said oil isn’t going to vanish as the fuel that runs America.

“It’s unrealistic to think that the demand for petroleum is going to decline from 80 million barrels per day or thereabouts, which it was last summer, and go to the point where petroleum is going to be irrelevant,” he told the Memphis audience last month. “We should be producing the maximum amount (of oil) that we can in this country.”

It is a point in the leadership council’s set of recommendations that he admits, “We don’t get as high a grade on … from environmentalists.”

Smith said an “enormous amount of resources” beneath the outer continental shelf could be produced in an “environmentally sensitive” way.

He also said, “Nuclear energy should be a huge part of the equation,” noting the use of nuclear power at FedEx’s facilities in Paris, France. “It’s the only completely emission-free power source.”

Penfield isn’t so sure about the future of petroleum.

“I think eventually something is going to happen where it will be a pretty dramatic situation,” he said. “There’s going to come a point in time when we do run out. With the population increasing the way it is and these different countries booming, it’s going to be very, very difficult to attain the stuff.”

He sees a “tipping point,” or point at which the research and development of green alternatives becomes a direction for corporations in possibly the next two to three years, with some important questions still to be answered in the research.

“Does it make sense to switch? Does it make sense to change the infrastructure? If prices of gas are low, it’s going to be a hard thing to convince people to switch. It really is. I hate to say that,” Penfield said.

Mills has a different view.

“I believe we’ve reached that tipping point and gone beyond it,” she told The Memphis News. “I believe that people have internalized expensive and fluctuating fuel prices as a business risk that they need to manage. I believe that people are seeing environmental innovation and efficiency improvements are going hand in hand – getting them where they need to be to address security objectives, to address climate objectives, to address business objectives.”

Study before drilling seas
Fairbanks Daily News-Miner, May 13, 2009; http://newsminer.com/news/2009/may/13/study-drilling-seas/?opinion

Caroline Cannon

To the Bush administration, the waters off Alaska's coasts were nothing more than a place to stick their drilling rigs. With the U.S. Court of Appeals for the District of Columbia Circuit's recent decision on the Bush administration's offshore drilling program, it seems that these waters might be recognized for their spectacular ability to host bountiful life found nowhere else in the world.

As plaintiffs in the case decided recently on the Bush administration's 2007-2012 Outer Continental Shelf oil and gas leasing program, we asserted that this offshore drilling plan was approved with careless disregard for the impacts on the fragile Arctic ecosystem of the Chukchi, Beaufort and Bering seas, and on the people who have relied upon these ecosystems for millennia. In a unanimous opinion, three judges found the Bush administration Interior Department's plan to be "irrational."

Using flawed logic that ignored the sensitivity of these at-risk ecosystems, the Bush Interior Department said that the Beaufort and Chukchi seas were the least sensitive waters in the proposed national offshore leasing program — a finding that came as a shock to the local people who know the seas best. While the court was willing to give federal officials substantial benefit of the doubt, it was not willing to give Interior "carte blanche" to ignore science, traditional ecological knowledge and the law.

The Obama administration's Interior Department is charged with revisiting that plan and can do so without the baggage of the Bush administration's short-sighted focus on fossil fuels. In recent public meetings around the United States, including Dillingham and Anchorage, new Secretary of the Interior Ken Salazar has shown that he intends to avoid the "drill at any cost" mentality that Bush's Department of Interior made its hallmark.

Secretary Salazar heard from Alaskans about the devastating effects of oil spills on our marine environment. In fact, as even the Bush administration Interior Department was forced to admit, there is a 40 percent chance of a large oil spill in the Chukchi Sea if leasing goes forward as Bush had planned. And as everyone admits, there is no technology that exists to clean up such a spill in the Arctic's icy waters. What's more, there is not enough scientific data to truly assess the impacts of drilling on the Arctic environment. As the Bush administration's National Marine Fisheries Service said in 2006, there must be an "initiation of a comprehensive research program" before any leasing plans move forward.

The area in question is under immense stress from the impacts of climate change — as global temperatures increased an average of about 1 degree Fahrenheit during the past 50 years, temperatures in Alaska have increased an average of 4 degrees Fahrenheit. The animals and people that call the Arctic home are feeling the effects — there have been new-found reports of polar bears, now listed as a threatened species, drowning as they try to make it out to sea. Without the requisite data, it is impossible to determine exactly how oil and gas development would add to the already crippling stress of climate change. Alaska Native communities on the North Slope, who depend on the Arctic Ocean and call it their garden, are afraid that the combination of these two elements will cause their way of life to slip away forever.

The air in America's Arctic today is filled with excitement. The Inupiat people, as they have for thousands of years, are getting ready for spring whaling, and for the first time in years can do so without fear of indiscriminate and insensitive oil and gas leasing.

Secretary Salazar has the opportunity to use science and the traditional knowledge of the people who understand the Arctic ecosystem to come up with a leasing program that maintains, as the law and common sense require, "a proper balance between the potential for environmental damage, the potential for the discovery of oil and gas, and the potential for adverse impact on the coastal zone." The court's opinion shows that careful reasoning of the law is behind him — and that, in the end, in a lawful and rational society, informed decision-making is still important.

Caroline Cannon is president of the Native Village of Point Hope. Cindy Shogan, executive director of the Alaska Wilderness League in Washington, D.C., and David Gordon, executive director of Pacific Environment in San Francisco, contributed to this article.

Senate Republicans Block Interior Nominee, Demanding Answers on Oil and Gas Leases
CQ, May 13, 2009; http://www.cq.com/document/display.do?matchId=78482256

By Bart Jansen

Senate Republicans blocked the confirmation Wednesday of David J. Hayes as deputy secretary of Interior in a partisan dispute about energy and endangered species.

Sen. Robert F. Bennett, R-Utah, sharply questioned the grounds for the Interior Department's withdrawal of 77 oil and gas leases in Utah, part of 128 leases approved by the Bush administration in its final month. He said Hayes is qualified for the department's No. 2 post, but he rallied Republicans to block the nomination until he receives answers to his questions about how the department made its decision to withdraw the leases.

The vote was 57-39, three short of the 60 needed to invoke cloture and limit debate.

Majority Leader Harry Reid, D-Nev., criticized Republicans for holding up Hayes' nomination and vowed that he will ultimately be confirmed. To keep the parliamentary path open to a second try, Reid voted against limiting debate.

Interior Secretary Ken Salazar, who until this year was a Democratic senator from Colorado, called the rebuff to Hayes "a tired vote of bitter obstructionism."

Salazar, referring to scandals involving the Interior Department during the Bush administration, added, "It may be uncomfortable for some to watch us have to clean up mess after mess — from corruption to lawbreaking — that is the previous administration's legacy at Interior, but to cast a vote against such a qualified and fine person is the height of cynicism."

Bennett rejected such criticism. "This is about the department's failure to respond to legitimate questions and concerns," Bennett said after the vote, adding that some of the answers that the Interior Department has provided to his questions are factually incorrect. "I don't blame Secretary Salazar for that .... but nonetheless, I'm entitled to factually correct responses."

Bennett said other Republicans joined with him because they too wanted to protect their right to correct responses from Obama nominees.

Bennett said he would be willing to support Hayes once his questions are answered factually.

"As soon as they do it, I would be more than happy to let David Hayes go. I would be more than happy to campaign among my fellow Republicans to say 'Vote for him.'"

Bennett charged that the Obama administration had treated the 77 oil and gas leases differently from the others issued at the same time because environmental groups had filed a lawsuit challenging them.

"If there was a flaw in the way these [77 leases] were handled, all 128 should have been withdrawn he said. "This was a political decision."

Republican Sen. Lisa Murkowski of Alaska criticized a 180-day delay in a leasing plan for the <Outer> <Continental> <Shelf and a separate administration ruling on consultation about endangered species rules.

"It was this last issue, this issue as it relates to the Endangered Species Act, that in my opinion was really the straw that broke the camel's back here," Murkowski said.

Democrats Edward M. Kennedy and John Kerry of Massachusetts, along with Barbara A. Mikulski, D-Md.,were absent. Republican Whip Jon Kyl of Arizona and GOP Sen. Olympia J. Snowe of Maine voted to limit debate on the nomination.

"David Hayes will be confirmed," Reid said. "Everyone should understand." He said that if necessary, he will wait for Democrat Al Franken of Minnesota to be declared the winner of last November's election battle with former GOP Sen. Norm Coleman, a victory that would hand Democrats a filibuster-proof 60 votes.

The fight over the Hayes nomination has turned into the biggest clash yet over one of President Obama's nominees.

No other Obama nominee has come to a vote and failed to get the support necessary for confirmation. The only other Obama nominee who faced a cloture vote was Christopher Hill, who was confirmed as ambassador to Iraq on April 21 by a vote of 73-23, after the Senate voted 73-17 on April 20 to end debate on the nomination.

Hayes served a previous stint as deputy secretary of the Interior from 1999 to 2001. He worked on water management approaches in the West, settling long-standing Indian water and land disputes, and establishing new national parks, including Great Sand Dunes National Park in Colorado.

Hayes also was a member of Obama's transition team.

Majority Whip Richard J. Durbin, D-Ill., called Republicans the party of "no" for slowing more than dozen Obama nominees so far.

"These Republicans are still negotiating the last election," Durbin said.

Interior Nomination Likely To Be Rejected in Senate
CQ, May 12, 2009; http://www.cqpolitics.com/wmspage.cfm?parm1=1&docID=news-000003115630

By Kathleen Hunter

The Senate appears poised to reject President Obama's nominee to the No. 2 post at the Interior Department, a situation that could escalate tensions between Senate Republicans and the White House.

Majority Leader Harry Reid 's office signaled late Tuesday that Republican opposition would prevent Senate Democrats from securing the 60 votes needed to move forward with the nomination of David Hayes as deputy secretary of Interior.

The Senate will vote Wednesday morning to invoke cloture and limit debate on the nomination. If the chamber can't muster 60 votes, as expected, Hayes' nomination will stall.

"It's outrageous, and it's not fair to President Obama who deserves to have his deputies installed in key Cabinet departments," said Reid spokesman Jim Manley, who described Republicans' objections as "petty."

No other Obama nominee has come to a vote and failed to get the support necessary for confirmation. The only other Obama nominee who faced a cloture vote was Christopher Hill, who was confirmed as ambassador to Iraq on April 21 by a vote of 73-23, after voting to end debate on the nomination April 20 by a vote of 73-17.

Reid filed for cloture May 11 on Hayes' nomination, which has been delayed because of a controversy about oil and gas development. Robert F. Bennett , R-Utah, said in March that he would try to hold up floor consideration because he objected to the department's decision to cancel oil and gas drilling leases near several national parks in Utah.

Bennett spokeswoman Tara Hendershott said late Tuesday that Bennett was encouraging every Republican to oppose the nomination.

In a statement, Bennett confirmed that he should have enough support from his colleagues to block the nomination.

"Members understand this is about national energy policy and the minority's right to be heard." Bennett said.

Reid had been trying Tuesday to negotiate a deal that would allow the Senate to forgo the cloture vote and prevent a Republican filibuster, forcing an eventual vote on Hayes' confirmation.

But the majority leader said late in the day that the cloture vote appeared unavoidable.

“I cannot imagine we would have to invoke cloture on a Cabinet nomination, someone that is going to work for one of our cabinet officers . . . but it appears that there are a lot of people not willing to even allow a vote on David Hayes,” Reid said.

Reid criticized Hayes’ opponents for trying to block a confirmation vote on a nominee that has been heralded by their recent colleague, former Sen. Ken Salazar , D-Colo.

Salazar now heads the Interior Department, and has described Hayes as “the right person at the right time for this job,”

A spokesman for Minority Leader Mitch McConnell , R-Ky., referred questions to Bennett’s office.

Hayes did a previous stint as deputy secretary of the Interior from 1999 to 2001. He worked on water management approaches in the West, settling long-standing Indian water and land disputes, and establishing new national parks, including Great Sand Dunes National Park in Colorado.

Hayes also was a member of Obama’s transition team.

Interior asks court not to toss national leasing plan
Greenwire, May 12, 2009; http://www.eenews.net/Greenwire/2009/05/12/8

Ben Geman

The Interior Department wants an appellate court to change or clarify a recent ruling to avoid "severe disruptions" in offshore oil exploration while the department complies with judges' orders to revise an environmental analysis underpinning its leasing program.

The Justice Department, acting on Interior's behalf, yesterday asked the U.S. Circuit Court of Appeals for the District of Columbia to alter an April ruling that vacated Interior's 2007-12 outer continental shelf leasing program.

The ruling, in response to environmental litigation over leasing plans off Alaska, sent the plan back to Interior, saying the department must re-evaluate the relative environmental sensitivity of different OCS regions because an earlier review was flawed.

The court said this flawed evaluation would have hindered Interior's ability to comply with a statutory requirement that obligates the department to balance potential environmental harm to coastal zones against potential oil and gas discoveries when deciding which areas to lease.

The DOJ petition says Interior has begun addressing the instructions and that vacating the entire plan was not needed to correct the problem. The court's decision to vacate the plan will cause "broader disruptions that would be both severe and unnecessary," the petition states.

"In particular, vacatur might require interruption of exploration and production activity in the Gulf of Mexico and could call into question the validity of 487 leases already issued in the Chukchi Sea and 1,854 more issued in the Gulf of Mexico," it states.

DOJ is asking the court to clarify the scope of the ruling, change it so that the whole 2007-12 plan is not vacated while Interior does the new environmental analysis, or both.

The filing says the April ruling has created widespread uncertainty in the oil and gas industry about its scope, listing several issues needing clarification.

Interior does not interpret the decision to invalidate prior leases issued in the six sales that have occurred under the plan, five of which were in the gulf and one in Alaska, the filing notes. But it adds that it would be "profoundly disruptive" if it were interpreted this way.

The filing adds that the court's order could create several other problems even if it is not ready to nix leases that have been issued already, arguing that Interior would face uncertainty about what types of activity it can allow on these leases. The filing also complains that the decision is not clear on whether Interior can conduct upcoming lease sales.

Ruling alters Alaskan plans
The petition says that while Interior revises its environmental sensitivity analysis, it will not authorize any actions under exploration plans for Chukchi Sea leases sold in February of 2008.

The department will also delay a planned February 2010 Beaufort Sea lease sale "as necessary," the filing states. It says the revised environmental sensitivity rankings could lead Interior to exclude the two areas from leasing, reduce leasing or yield no changes.

The Obama administration, in asking the court not to vacate the plan, also says it is unlikely that its revised analysis would substantially change decisions about the number of gulf lease sales to conduct.

Delegation questions oil and gas lease ruling
2theadvocate, May 12, 2009; http://www.2theadvocate.com/news/44758852.html

By GERARD SHIELDS

WASHINGTON — The Louisiana congressional delegation is trying to determine whether a recent federal court ruling would wipe out oil and natural gas leases from the Outer Continental Shelf in the Gulf of Mexico.

A decision on April 17 by the U.S. Court of Appeals for the District of Columbia struck down the 2007-2012 Outer Continental Shelf oil and gas leasing plan off Alaska.

The Alaska plan was shut down after the court found the Bush administration did not conduct sufficient scientific and environmental analyses before scheduling oil and gas lease sales there.

U.S. Sen. Mary Landrieu, D-La., and U.S. Rep. Bill Cassidy, R-Baton Rouge, both recently signed on to letters to U.S. Department of Interior Secretary Ken Salazar seeking clarification of the decision.

The leases are a source of revenue for the state. A recent lease sale in March netted Louisiana $6.3 million and local parishes another $1.5 million, according to the U.S. Interior Department. The money is dedicated to coastal restoration and hurricane protection.

“The potential impacts of this court decision, if not addressed in an expeditious and responsible manner, could be severe,” Landrieu wrote in a letter signed by four other colleagues, two from Alaska.

“Future lease sales could be canceled or postponed and federal and state governments will forego the significant job creation and substantial revenues generated by offshore oil and natural gas production,” the letter said.

Salazar is expected to ask the U.S. Justice Department for clarification of the decision, according to an unofficial news release circulated on Monday.

Cassidy joined eight other House colleagues in a letter to Salazar concerned about the matter. The current five-year lease sale plan has generated more than $10 billion in federal revenue, the letter said.

The federal government will have to forgo billions more from upcoming lease sales if they are struck down, the congressmen said.

“If not addressed, the court decision becomes a de facto ban on any new offshore drilling,” the letter said.

U.S. Rep. Steve Scalise, R-Metairie, and U.S. Rep. John Fleming, R-Minden, also signed on to the House letter.

Pat Courreges, a spokesman for the state Department of Natural Resources, said the department did not have a figure on how much money the state might lose from lost lease sales but that it would like to see a swift decision on the court case in order not to affect future leases.

“The longer you go, the larger the impact,” Courreges said.

Lawmakers blast Salazar on OCS silence
Upstream Online, May 11, 2009; http://www.upstreamonline.com/live/article178211.ece

Nine US lawmakers strongly criticised Interior Secretary Ken Salazar and the Obama administration for not quickly addressing a court case that threatens the current offshore leasing programme.

In a letter sent today, the lawmakers said the administration needs to address a court decision that sent the current five-year offshore leasing plan back to the Interior Deparment for revision.

“We strongly urge the Department of Interior to immediately defend and restore the plan for the development of American oil and gas resources on the Outer Continental Shelf (OCS),” the letter reads. “The department has at its disposal more than 1600 pages of environmental documents used to develop the OCS plan to complete the analysis requested by the court.”

Last month, the three-judge appeals court in Washington rejected the current five-year outer continental shelf leasing programme in a ruling related to a lawsuit designed to halt drilling in certain areas off Alaska.

The court ruled that the department did not properly assess the environmental risk of oil and gas drilling in Arctic areas - specifically the Beaufort and Chukchi seas.

It is up to Interior Secretary Ken Salazar to review the programme in light of the ruling.

Interior officials have repeatedly said they have not determined the full extent of the decision including whether it affects areas outside of Alaska and whether it could be used to invalidate existing leases.

Last week, Lars Herbst, who heads the Minerals Management Service’s Gulf of Mexico region, told Upstream the lack of direction on how to interpret the ruling could prevent his agency from awarding leases in the Gulf sold in March or proceeding with a Gulf sale slated for 19 August.

“If left unaddressed, the court decision becomes a de facto ban on any new offshore drilling,” the lawmakers said in their letter. “The administration frequently expresses its support for offshore development and the importance of oil and gas production to the American economy. However, the administrations' words are rarely matched by substantive action that will increase American energy production.”

The lawmakers requested a reply within two weeks.

Waxman aims for Thursday markup in Energy and Commerce
E&E News, May 11, 2009; http://www.eenews.net/eenewspm/2009/05/11/1

Darren Samuelsohn

House Democrats are nearing agreement on a major energy and global warming bill and plan to begin an Energy and Commerce Committee markup on Thursday.

According to sources on and off Capitol Hill, Chairman Henry Waxman's (D-Calif.) plan involves opening statements this week for the 59-member panel, with amendments and votes next week in order to meet his goal of approving the bill before the Memorial Day recess.

Waxman will meet tomorrow afternoon with the committee's 35 Democrats to explain the contours of the legislative package, including several areas where members have reached agreement.

Still unclear is when Waxman will produce the legislative text that will be the subject of the markup. Several Democrats have held back their support until they have the bill in hand.

"Progress is being made," Rep. Baron Hill (D-Ind.) said last week. "But it's important for us to see the entire document so we can get a clear understanding of what we're going to be voting on."

Democratic lawmakers negotiated through the weekend and into today on the comprehensive legislative package with the focus primarily on emission targets and timetables, distribution of emission allowances. and a nationwide renewable electricity standard.

While any official details on Waxman's bill remain under wraps, sources tracking the measure say they expect Democrats to agree on a cap-and-trade program that demands greenhouse gas emission reductions of between 14 and 17 percent by 2020, compared with 2005 levels.

Waxman and the committee's Democrats are also close on emissions allowances, with about 35 percent of the emission credits being given away for free to the local distribution companies that service the electric utility industry. Trade-intensive industries such as steel, paper and cement also would get between 10 percent and 15 percent of the credits in the opening year. Petroleum refiners also would get between 1 percent and 5 percent of their allowances for free.

All free allowances would be phased out in 10 to 15 years, sources say.

On the renewable electricity standard, Waxman has lowered his sights from an original plan requiring 25 percent of the country's energy to come from wind, solar and biomass by 2025, with efficiency measures used to meet a fifth of the target. It is still unclear what the final agreement will be, but sources said Waxman has offered a target of 15 percent by 2025, with 5 percent compliance through efficiency measures.

Waxman wants to complete the markup before the start of the Memorial Day recess at the end of next week so that he can turn his panel's attention in June to health care reform. But it is still unclear if the negotiations will yield a majority of votes.

"The question is whether chairman as advocate works as well as chairman as broker," said one former Democratic aide on the Energy and Commerce Committee. "Mr. Waxman has clear and strongly held views. Can he compromise them sufficiently?"

Secretary Salazar Seeks Clarification to OCS Court Ruling
DOI, May 11, 2009; http://www.doi.gov/news/09_News_Releases/051209.html

WASHINGTON, D.C. – Secretary of the Interior Ken Salazar today asked the Department of Justice to seek clarification from the U.S. Court of Appeals for the District of Columbia Circuit on the scope of its April 17, 2009 decision that Bush Administration officials did not conduct sufficient scientific and environmental analysis before scheduling oil and gas lease sales on the Outer Continental Shelf off Alaska.

The court vacated the entire 2007-2012 Outer Continental Shelf oil and natural gas leasing program two years after lease sales began. At Salazar's request, the Department of Justice is asking the court to confirm its interpretation of the decision as not requiring retroactive invalidation of prior leases and to allow it to move forward and fix the shortcomings in the environmental analysis for the 5-year plan without developing and approving an entirely new five year program.

"The previous Administration's failure to apply the law has resulted in widespread uncertainty in the oil and gas industry and put reliable conventional energy production from offshore areas at risk," Salazar said. "We must fix the problems the court identified and put oil and gas leasing decisions back on firm scientific footing."

The court determined that in formulating the current 5-year plan the previous Administration erred in only considering the environmental sensitivity of shoreline areas, rather than considering the environmental sensitivity of the entire leasing area, as required by law.

To read the brief filed today by the Department of Justice on behalf of the Department of the Interior, click here:

http://www.doi.gov/news/09_News_Releases/PFR_as_filed.pdf

Obama Budget Projects $624 Billion In Climate-Change Revenues

Dow Jones Newswire, May 11, 2009; http://www.nasdaq.com/aspx/stock-market-news-story.aspx?storyid=200905110945dowjonesdjonline000303&title=obama-budget-projects-624-billion-in-climate-change-revenues

By Siobhan Hughes, Of DOW JONES NEWSWIRES

WASHINGTON -(Dow Jones)- The Obama administration projected on Monday in a detailed version of its fiscal 2010 budget proposal that a law to combat climate change would raise $624 billion over 10 years.

The White House said that most of the money - about $504 billion - would be used to make permanent a tax credit that provides working individuals as much as $400 and working families as much as $800. The tax credit was put into place earlier this year as part of an economic stimulus package, and starts to phase out when individual income reaches $75,000 or at $150,000 for married couples.

About $120 billion - or $15 billion a year - would be used to fund investments in clean energy research, development, adaptation and climate science, beginning in fiscal 2012. Any additional money raised beyond the $624 billion would be used to compensate vulnerable households communities, and businesses for increased energy costs, the administration said.

Separately, the Obama administration said, as it had earlier this year, that it wants to take away $31.5 billion in tax breaks from oil and gas companies. The largest item would involve repeal of a lucrative deduction for domestic manufacturers, part of the 2004 "American Jobs Creation Act," which would cost the industry $13.3 billion over 10 years. It also seeks to raise $5.3 billion over 10 years from a tax for offshore oil and gas production.

The Obama administration also wants to raise the fees charged for issuing some permits to oil and gas companies. Though a 2005 law prohibits the Bureau of Land Management from implementing new permitting charges, the U.S. has been charging such comparable fees under 2008 and 2009 spending measures. The Obama administration wants to end the ban permanently. It hopes to raise $46 million a year through the new fees.

The Obama administration also proposes inspection fees for oil and gas companies operating in U.S. coastal waters. The fees would be based on the number of oil and gas wells per facility, and are expected to generate $10 million in fiscal 2010. The government said that Minerals Management Service inspections are expensive, including the costs of as much as $20 million for helicopters, and that the fees will result in offshore developers funding about one-fourth of inspection costs.

The impact of drilling
Herald Tribune, May 11, 2009;
http://www.heraldtribune.com/article/20090511/OPINION/905111018/2198/OPINION?Title=The-impact-of-drilling

Off-shore plan is detrimental to economy, environment and energy reform

Proponents of a recent plan to allow oil drilling as close as three miles from Florida's west coast beaches say the environmental impact is exaggerated.

State Rep. Seth McKeel, R-Lakeland, who voted with the Florida House majority that approved the drilling bill, later criticized opponents who continue to evoke images of unsightly, polluting oil rigs.

"To me, one of the key components of what we did this year was get the conversation started about new technology," Mc-Keel told the Herald-Tribune's Joe Follick. "They have this image of 30-year-old technology that just isn't there."

Indeed, the four-color "Florida Energy" handout provided by the private group pushing the drilling proposal states:

"Modern drilling technology makes it possible to drill a well that can be pumped from a subsea platform that would exist completely underwater and could not be seen from land."

Yet, nothing in bill for which McKeel and 69 other House members voted requires that companies looking to drill near Florida's Gulf Coast use any such innovations.

In fact the bill (HB 1219) -- the basic language of which was written by the private group promoting the drilling plan -- says that all companies submitting bids must provide "Documentation stating that all equipment or structures above the surface of the water and related to the development and production of oil and gas within the territorial waters of the state shall be situated no closer than 3 miles from the coast ..."

The apparent discrepancy between the proponents' claims and the historically ugly reality of offshore oil drilling is one of many that surround the proposal, which surfaced just 10 days before the end of the regular legislative session.

The bill, pushed by speaker-designate Dean Cannon, was quickly and overwhelmingly approved in the House but Senate President Jeff Atwater refused to take up the bill, citing the need for "serious review." The proponents vow to try again next year.

We hope that, if and when the drilling bill returns to the Legislature, it receives the serious review that Atwater proposed, because a large share of Florida's economy and its quality of life will depend on it.

Any such review should explore drilling plan's impact on three main areas, emphasized repeatedly in the proponents' presentation materials: the economy, the environment and energy independence.

The economy

Florida has many qualities attractive to visitors, seasonal and permanent residents, and businesses. But its main attraction is a lifestyle that promises warm weather, beaches, fishing, boating and other recreational enjoyments. All but the weather would be jeopardized to some degree by the proposed near-shore drilling operations.

Proponents estimate that oil and gas operations "could yield $1.5 billion a year in revenues and create more than 16,000 jobs." That is relatively small change in a statewide economy that is dependent on real estate and a $65-billion-a-year tourism industry that employs about 1 million Floridians.

And when would the $1.5 billion in revenues start rolling in? How many oil rigs three to 10 miles off the coast does that figure represent? When we put those questions to proponents in a phone interview, they couldn't say.

The environment

The proponents say Florida "can lead the nation in conducting oil exploration with the very latest technology that is protective of the environment and avoids a visual blight from the beach."

"Lead the nation" is another way of saying such technology is not in common use at the 10,000 drilling rigs that clutter the western two-thirds of the Gulf of Mexico. The reality of offshore drilling for Texas, Louisiana Mississippi and Alabama has been anything but protective of the environment.

"Tarballs" of spilled oil and debris from rigs constantly wash up on shore.

The drilling process requires using fluids, called "drilling muds," to lubricate and cool the drill bit, control pressure and seal the well. The federal Minerals Management Service has called the fluids, which can include toxic metals such as barium, chromium and arsenic, "the greatest potential source of contamination from drilling operations."

Hydrogen sulfide, a poisonous gas, is a byproduct of oil drilling that is usually burned off by a continuous flame on rigs. But on Sept. 4, 2007, the flame on a rig off Dauphin Island, Ala., went out and a cloud of potentially fatal gas drifted over the island. As recounted recently by guest columnist David McGrath, dozens of residents were sickened and a school was evacuated.

The proponents' handout states that a major spill has not occurred in 30 years and there have been "no spillages from major hurricanes." But U.S. Rep. Kathy Castor, D- Tampa, notes that the Coast Guard reported that Hurricane Katrina caused 7 million gallons of petroleum products to spill into Louisiana's coastal waters.

Florida currently has no oil refineries, which produce gas and other by-products and are heavy air-pollution generators. Presumably this would change if drilling were permitted in coastal waters. In fact, a staff analysis of HB 1219 says the plan must include an "expedited permitting process" for "onshore activities" associated with the production of oil and natural gas products.

Whether oil or other harmful chemicals and pollutants are released in a major disaster, or in dribs and drabs during normal offshore operations, will matter little to Florida residents or visitors. The effect in any case will be a deterioration of the coastal environment and of our quality of life.

Energy independence

This is the title of the proponents' handout and a main selling point. "America faces a national imperative to control our own destiny and achieve energy independence," the handout states out front.

But the truth is, any oil and gas that might be extracted from the proposed near-shore drilling operations will do next to nothing to reduce U.S. dependence on foreign oil and, worse, will distract Florida from developing its own sources of renewable energy.

As we and others have pointed out repeatedly, there is no evidence that opening Florida's waters to drilling -- for oil, in particular -- would drive down prices at the gas pump or lead to energy independence.

The United States has less than 3 percent of the world's oil reserves but consumes 25 percent of the supply.

The U.S. Department of Energy has reported that untapped domestic supplies are so minimal -- relative to Americans' rate of consumption -- that, even if all were extracted, they would not significantly affect prices or reduce dependency on foreign oil. The department points out that it would take up to 10 years for areas under new leases to produce fuel for consumption.

The U.S. Energy Information Administration said in 2007 that increasing "access to the Pacific, Atlantic and eastern Gulf regions would not have a significant impact on domestic crude oil and natural gas production or prices before 2030."

Drilling for oil off Florida will not achieve energy independence; it will distract the state from that goal. In fact, it already has.

Gov. Charlie Crist persuaded the Legislature in 2007 to adopt goals for reducing the state's reliance on oil and other fossil fuels by reducing the demand and increasing the viability of alternative sources.

An energy reform plan that would have advanced the state's development of solar energy and other renewable sources was introduced in this year's legislative session. The Senate passed it, but the House refused to consider it -- unless the coastal drilling proposal was included. The Senate correctly declined, and the reform plan died.

The longer that coastal drilling is under consideration, the farther Florida will be be from energy independence.

Tomorrow: The future of the near-shore drilling debate.

Yesterday: An editorial on the story behind this year's drilling proposal is available at:

www.heraldtribune.com/opinion.

Two-fer: Energy, jobs make oil, gas a good bet
The Oklahoman, May 11, 2009; http://newsok.com/two-fer-energy-jobs-make-oil-gas-a-good-bet/article/3368377

The Obama administration has a rare chance to serve the public good in a couple of key policy areas — energy and new jobs — with a single stroke.

Domestic oil and gas, not renewables, offer the better chance to address the nation’s energy needs and boost job creation. Hard to believe with President Barack Obama’s enthusiasm for "green” energy and jobs, but it’s true.

In a recent article, syndicated columnist Robert Samuelson writes that renewables can’t hold a candle to oil and gas in terms of energy or new employment.

Wind and solar account for about 1 percent of U.S. electricity, while oil and gas supply two-thirds of America's energy — mostly for transportation. To suggest wind and solar can assume petroleum's role is a stretch. Increasing their contribution tenfold would barely address the country's needs, Samuelson writes.

Same thing for jobs. In 2008, Samuelson says the oil and gas industries employed 1.8 million people, while solar and wind together employed about 120,000. A 5 percent rise in oil jobs — about 90,000 — approaches a doubling for wind and solar.

America has vast oil and gas reserves — perhaps 86 billion barrels of oil on the outer continental shelf, another 3.6 billion barrels in North Dakota and Montana and maybe 2 trillion barrels of oil shale, mostly in Colorado.

Go get that American oil, Mr. President. You'll make the country less dependent on foreign oil, buy time for new energies and technologies to emerge and put lots of people to work.
