Week in News: May 19 – 25, 2008

Public comment underway on offshore drilling in Bristol Bay area
Alaskan Journal of Commerce, May 25, 2008; http://www.alaskajournal.com/cgi-bin/printme.pl

Peeved at Prices? Don't Blame the Dealer
Washington Post, May 25, 2008; http://www.washingtonpost.com/wp-dyn/content/article/2008/05/24/AR2008052401961.html?wpisrc=newsletter

House Of Oil Repute
INVESTOR'S BUSINESS DAILY, May 23, 2008;
http://www.investors.com/editorial/editorialcontent.asp?secid=1501&status=article&id=296435376454372

Posted 5/23/2008
Will domestic drilling decrease prices?
UPI, May 23, 2008;
http://www.upi.com/International_Security/Energy/Analysis/2008/05/23/analysis_to_drill_or_not_to_drill/3849/

Energy and the Executive
WSH, May 19, 2008; http://online.wsj.com/article/SB121105403544501297.html?mod=googlenews_wsj

Appeals stall offshore oil project
Lompoc Record, May 23, 2008; http://www.lompocrecord.com/articles/2008/05/23/news/news02.txt

Oil Industry, Lawmakers Aim To Lift Bans on Drilling
WSJ, May 23, 2008; http://online.wsj.com/article_print/SB121149858423815755.html

Crude Scapegoats
Investors Business Daily, May 21, 2008;
http://www.investors.com/editorial/editorialcontent.asp?secid=1501&status=article&id=296263015116278

Public comment underway on offshore drilling in Bristol Bay area
Alaskan Journal of Commerce, May 25, 2008; http://www.alaskajournal.com/cgi-bin/printme.pl

A lengthy, multi-million dollar federal exercise that will determine whether offshore oil and gas exploration proceeds in the North Aleutian Basin is now open for extensive public input.

The Alaska office of the U.S. Interior Department's Minerals Management Service set public scoping meetings in Anchorage and Dutch Harbor in mid-May, and more are being considered.

The agency is working to set up a meeting for June 3 in Kodiak, to coincide with the meeting of the North Pacific Fisheries Management Council, agency spokeswoman Robin Cacy said May 13. MMS is also talking with Sand Point, Dillingham, King Salmon, Nelson Lagoon and Cold Bay.

Those sessions will probably be held in late August or September to avoid conflict with fishery openings.

The meetings aim to gather public input on what studies are needed to determine if offshore oil and gas drilling should be allowed in the North Aleutian Basin, areas that should have special mitigation, and other issues to be evaluated in the environmental impact statement, Cacy said.

Work on the environmental impact statement will start soon. The draft EIS is due in 2010, Cacy said. Once the EIS is out for public review, the Minerals Management Service will hold public hearings, then review all comments made at those hearings. Analysts will address all comments. The final EIS will then be published, and the notice of sale will be published at least 30 days prior to the sale.

"We've given ourselves a long lead time to complete the studies we have ongoing and to possibly start and complete other studies that may be suggested during scoping," Cacy said. "We prepare a report that outlines all the scoping comments, and it will be used as a basis that helps us design the EIS."

Interest in offshore lease sales has increased dramatically over the last couple of years, and Cacy said she expects considerable comment during the scoping sessions.

Representatives of the oil and gas industry and environmental organizations were notified by e-mail about two weeks in advance of the Anchorage and Dutch Harbor meetings, and public service announcements were made available to radio stations at the same time, Cacy said. Public notice was released in print news media May 8, she said.

The notice was short, said Kelly Harrell, Friends of Bristol Bay coordinator for the Alaska Marine Conservation Council.

“The extremely short window of notice on these vital forums for the public to gain knowledge and comment on offshore drilling in the nation's largest fishing grounds should be a red flag for everyone,” she said. “The agency has an appalling lack of concern for public participation in decisions that will affect some of the most valuable, renewable resources in Alaska and the world.”

Cacy said the agency had some budget restraints and counted on those notified by e-mail to help spread word of the meetings.

“We feel we do the best we can,” she said. “We're not going to be able to please everyone.”

Among those who received the e-mail alerts was the Alaska Oil and Gas Association. Marilyn Crockett, executive director of AOGA, said the organization had no plans to comment at the initial scoping meeting in Anchorage held May 13, but would comment throughout the process.

The opportunity to comment will be open until July 7, Crockett said.

Curtis Smith, spokesman for Shell Oil, said Shell remained interested in the potential lease sale, but didn't plan to offer comments during the initial scoping process.

Peeved at Prices? Don't Blame the Dealer

Washington Post, May 25, 2008; http://www.washingtonpost.com/wp-dyn/content/article/2008/05/24/AR2008052401961.html?wpisrc=newsletter

Every time Sohaila Rezazadeh rings up a sale at her Exxon station on Chain Bridge Road in Oakton, her cash register sends the information to Exxon Mobil's central computers. If she raises the price of gasoline a couple of pennies, chances are that Exxon will raise the wholesale price she pays by the same amount.

Through a password-protected Web portal, Exxon notifies Rezazadeh of wholesale price changes daily. That way the oil giant, which is earning about $3.3 billion a month, fine-tunes the pump prices at the franchise Rezazadeh has owned for 12 years.

Now, however, Rezazadeh says she cannot stay in business. Credit-card fees are eating her profit margins. Exxon, which owns the station land, last week handed Rezazadeh a new lease raising her rent about 30 percent over the next three years. She stuck a copy on the window of her station to show customers who are angry about soaring pump prices. Rezazadeh has told Exxon that she cannot make money with the rent that high. Her territory manager's reply, she said, was simple: When you go, leave us the keys.

Rezazadeh, who fled to the United States from Iran in 1979, is part of the long chain that links motorists with the big oil companies. Major integrated U.S. oil companies -- which produce crude oil, own refineries and sell gasoline -- have been reaping billions of dollars in profit from high oil prices over the past two years, but they are still working to extract every penny they can from the marketing end of the business. Exxon Mobil doesn't break out its earnings from marketing alone, but its 2007 profits in worldwide refining and marketing -- known as the downstream part of the oil business -- reached $9.6 billion, 43 percent of that coming from the United States.

Although Exxon owns and operates few stations anymore -- less than 10 percent of the 12,000 Exxon outlets in the United States -- it uses franchise agreements to maintain tight control over stations that bear its brand. The company dictates everything from the number of pumps to hygiene practices to the placement of food on convenience store shelves. "They monitor everything," Rezazadeh said.

Exxon says it does all this to maintain uniform quality, while recognizing dealer needs. "We recognize . . . that we are in a difficult time with the run-up in crude oil prices," said Ben Soraci, director of U.S. retail sales for Exxon. "Retailers are under a lot of pressure, and they are on the front lines every day with the motorist, who is also feeling a lot of pressure."

Ultimately, Soraci said, "it's in our interest to see them succeed. It's not in our interest to see them hand us the keys."

But some Exxon dealers say the company is trying to squeeze too much out of them.

Like Rezazadeh, Scott Burnham was struggling to cope with low margins and rising rents. On May 9, he closed his station on scenic Knickerbocker Road in Closter, N.J., and abandoned it to Exxon. In March, Exxon had said it would raise his rent by a third over two years. Burnham tried to line up buyers for the franchise, which he purchased for $475,000 just two years ago. But one backed out, saying that the station would lose money no matter how much gasoline it sold.

"Why is the government giving Exxon subsidies and tax breaks when they're making billions of dollars and when they squeeze every dime they can out of every dealer who made that profit for them?" Burnham said.

Soraci said rent increases reflect rising real estate values. "We have excellent real estate out there that is superior to our competition," he said, which allows the dealers to "compete more effectively."

Even some of Exxon's successful and loyal dealers complain. Jerry Daggle owns five Exxon stations in Northern Virginia, and even though they have different competitive conditions and prices, "Exxon magically lets me make about 8 cents a gallon" at each one, he said.

He said micromanaging extends to the snacks sold at Exxon's On the Run convenience stores. The company uses a "planogram" to show dealers where to put candy bars and soda. "If I want to put Coke on a different shelf, I have to get special permission," Daggle said. Recently he was reprimanded for selling mulch on the perimeter of his award-winning Gainesville station; the mulch, though popular in the neighborhood, wasn't an approved product.

Technology has enabled Exxon to tweak its wholesale prices not just by region or state, but by zones as small as a street corner. Although such practices bring cries of outrage from some station owners, they elicit shrugs from some economists.

"Retailers put a lot of effort into understanding local markets, whether they're in the airline business where prices for every seat are often determined on daily basis, or book sellers," said Richard J. Gilbert, an economics professor at the University of California at Berkeley, who has studied the gasoline marketing business. "There's a lot of fine-tuning to adjust prices to local market conditions. The gasoline companies are not very different in that regard."

"We feel very strongly that zone pricing is a method of pricing that at end of the day allows our dealers to be as competitive as they can be at the retail level," Soraci of Exxon said. "It gives us the opportunity to give a particular retailer or trade area a lower price if competitive conditions require that."

Daggle, who has been an Exxon dealer for two decades after working his way up from pumping gas, said he has done well. But he still cannot fathom how the oil company can charge him different wholesale gasoline prices for each of the five Northern Virginia stations he owns. The stations all sell the same Exxon-branded gasoline, delivered from the same terminal in Newington, where it arrives via the same pipeline. Sometimes, Daggle said, it's even dropped off by the same truck and driver hours apart on the same day.

The only thing that's different is the price, which can vary by 35 cents per gallon, Daggle said. "If I could have driven a truck to Gainesville and drive the gas from there to Shirlington, I could have made 50 cents a gallon."

On occasion, he said, he has persuaded Exxon to lower his wholesale price to help match price cuts by a station next door in Gainesville.

Historically, gasoline marketing has been a low-margin business. For decades, when oil was plentiful, margins were kept low to move as much crude oil through the system as possible. Now, major companies don't have to fight to move product, but they are still battling for nickels and dimes at the pumps.

Like other parts of the retailing business, gasoline marketing has become more concentrated and high volume than it was in the days when mom-and-pop gas stations lured customers with free drinking glasses.

Cambridge Energy Research Associates, a consulting firm, noted in a report that in 1977, the United States had 223,118 gasoline outlets. By 2007, the number of outlets had declined to 164,292 -- even as the amount of gasoline sold increased. The average station now pumps 73 percent more than in 1977. And companies are trying to boost revenues by attaching convenience stores to the stations. In 1977, only 5 percent of gas stations had convenience stores; now, 65 percent do.

"The industry we're part of is an extremely competitive industry," said Exxon's Soraci. He said major oil companies' market share has dropped 20 percent in recent years as mass merchandisers such as Costco vie for customers.

Oddly enough, when prices are rising rapidly and consumers are most upset is usually when profit margins are slimmest for station owners. When prices are falling, as they were in September 2006, is usually when jobbers and station owners make the most money.

How much depends largely on Exxon. "If I had raised my gas, within a couple of days, almost inevitably, they would have raised my wholesale price. It's an unspoken rule," Daggle said. He said his Gainesville station makes most of its money from repairs, not gas sales.

Selling gas remains a cutthroat business in an industry awash in profits. Three years ago, when Daggle bought the Gainesville station, a share of Exxon stock was about $50. Buying and fixing up the station has cost him $800,000, and he hasn't yet drawn a profit from it. "If I had bought the stock," he said, he would have nearly doubled his money and would have "never lifted a finger."

House Of Oil Repute

INVESTOR'S BUSINESS DAILY, May 23, 2008;
http://www.investors.com/editorial/editorialcontent.asp?secid=1501&status=article&id=296435376454372\

Congress: Democrats oppose extracting 10 billion barrels of oil from ANWR because it won't affect prices, but want to tap our strategic reserve of 700 million because it will. Come again?

At a hearing last week before the House Committee on Global Warming, Rep. Edward Markey, D-Mass., said he didn't understand why President Bush wasn't releasing oil from the nation's reserves stored in underground salt domes in Texas and Louisiana.

Energy Secretary Samuel Bodman tried to explain that the stockpile "is meant to deal with . . . the physical interruption of the flow of oil to this country. We don't have that issue today."

We might, however, in the event of a conflict with, say, Iran. And for that reason, we believe the SPR should remain — what's the word? — "pristine" and filled to the brim.

But we not only need the SPR; we need more reserves — from the Alaska National Wildlife Refuge to shale oil in the Rockies to the outer continental shelf.

Instead, we have the likes of Rep. Markey, who last year introduced H.R. 39, legislation that would make the 1.2-million-acre coastal plain of ANWR a permanently protected wilderness.

Oil development would affect only 2,000 acres, yet Markey et al. seek to end forever efforts to develop its energy resources to benefit Americans.

Never mind that off the coast of Louisiana, not far from our strategic reserve, there are 3,200 offshore oil platforms that survived Hurricane Katrina without leaking a drop of crude.

Also never mind that Louisiana produces a third of America's commercial fisheries; fish thrive amid the platforms. Yet we are barred from more offshore exploration because of fears of spills and imaginary threats to marine life.

In our world, 10 billion is a lot bigger than 700 million. It's bigger in Bodman's world as well. The biggest factor affecting prices, he said, is that beginning in 2005 "there has been no change in global production" and "demand has outstripped supply."

The Energy Information Administration says the U.S. by itself will need 19% more energy in 2030. Add in the rest of the world and the growing economies of China and India, and you're talking 55% more energy demand. Despite our best efforts, more than 60% of that demand will be for oil and natural gas.

As President Bush said at a recent press conference, the Department of Energy has estimated that ANWR development, vetoed by Hillary Clinton's husband in 1995, would add a million barrels of oil to our daily supply.

That, he said, "translates to about 27 million gallons of gasoline and diesel every day." And that, he continued, "would be about a 20% increase of oil . . . and likely mean lower gas prices."

In last week's annual scapegoating of Big Oil, John Hofmeister, president of Shell Oil Co., told his Senate inquisitors: "This persistent denial of access is costing American consumers right out of their pocketbooks."

ANWR is only the tip of the iceberg, no pun intended. The outer continental shelf holds an estimated 115 billion barrels of oil and 635 trillion feet of natural gas. If allowed to develop these resources in Alaska, the shelf and elsewhere, U.S. reserves would increase by a factor of five, and we'd jump from 11th to fourth in the world in the size of our proven reserves.

Enough, in other words, to make OPEC blink — and gas prices drop.

Will domestic drilling decrease prices?
UPI, May 23, 2008;
http://www.upi.com/International_Security/Energy/Analysis/2008/05/23/analysis_to_drill_or_not_to_drill/3849/
By ROSALIE WESTENSKOW
UPI Correspondent
THE DALLES, Ore., May 23 (UPI) -- A day after oil prices topped $130 a barrel for the first time in history, U.S. lawmakers debated Thursday whether increased production at home would lower prices at the pump.

In an effort to ease the burden on consumers as gasoline prices reach record highs of $4 a gallon, Congress passed a measure last week demanding that the administration stop pulling oil off the market to fill the Strategic Petroleum Reserve. The same day, though, the Senate rejected legislation that would have opened up areas in the Outer Continental Shelf and the Arctic National Wildlife Refuge for oil drilling.

Republicans, such as Rep. Dan Burton, R-Ind., say the vote was a mistake because supply is directly tied to price. The only way the United States can affect supply is to increase domestic production, proponents of drilling argue, particularly after President Bush's request last week that Saudi Arabia release more oil onto the market resulted in only a small increase of 300,000 barrels per day.

"We have enough oil in this country to make ourselves almost energy-independent, and not one person has mentioned it," Burton said Thursday at a hearing on oil prices and national security in the House Foreign Affairs Committee. "We have to look at the realities of today, and the reality today is that we have untapped reserves that need to be drilled."

The United States currently produces 5 million barrels of oil a day and consumes 21 million barrels. According to the Energy Information Agency, the country had 21 billion barrels of crude oil in proven reserves at the end of 2006.

This represents a paltry 3 percent of total world oil reserves, Sen. Jeff Bingaman, D-N.M., said last week in a speech on the Senate floor opposing the initiative to allow more domestic drilling.

"So if we want to affect the price of oil … by increasing world supply, our ability to do so is limited," Bingaman said.

Even if the United States produced all the oil in its reserves, the power of the Organization of Petroleum Exporting Countries to alter production rates makes it impossible for Americans to change the amount on the market, said Anne Korin, co-director of the Institute for the Analysis of Global Security, a non-profit think tank that focuses on energy security.

"We drill more, they'll drill less," she told representatives at Thursday's hearing. "It will not affect supply. ... We'll reduce our reserves, and prices will not go down."

OPEC has routinely limited supplies to increase prices in the past, Korin said, and continues to do so.

"OPEC, spearheaded by Saudi Arabia, is deliberately keeping oil supply tight to prop up prices," she said. "While non-OPEC production has doubled over the last 30 years ... OPEC production today is virtually identical to its production 30 years ago, even as the global economy has grown and with it demand for oil."

In addition, OPEC has effectively removed 2.4 million barrels of oil per day from the market, Korin said. In 2007 Angola and Ecuador, which collectively produce 2.4 million bpd, joined the group. However, OPEC's overall production stayed the same, as other members decreased their production by the equivalent of the two new countries' contribution.

But some lawmakers aren't convinced.

"I do reject the idea that simply because we produce more, they'll produce less," said Rep. Dana Rohrabacher, R-Calif.

The country also has additional oil reserves that are not included in traditional estimates, which could change the equation, said Rep. Mike Pence, R-Ind.

The United States has the world's largest known deposit of oil shale -- rock containing petroleum-like liquids -- largely on federal lands in Utah, Wyoming and Colorado. These rocks contain an estimated 1.23 trillion barrels of oil, according to the federal Bureau of Land Management, a section of the U.S. Department of the Interior.

"On what basis do we dismiss 110 years of (oil supply in) potential oil shale reserves?" Pence asked the witnesses at Thursday's hearing.

Several companies are trying to develop the resource, but it is more difficult to produce oil from shale than traditional reserves. The rock must be mined, crushed and heated, and then the resulting liquid has to be separated and collected. Despite these difficulties, the real obstacle preventing development lies in government regulations and opposition from environmentalists, said Jim Hansen, consultant for the Oil Shale Exploration Co., an Alabama-based company that hopes to produce oil from shale deposits in Utah.

"There are tons of regulations," said Hansen, a former U.S. congressman from Utah. "Just to cut the weeds, they want an environmental impact statement. And every time we get a permit, someone challenges it."

At a time of rising oil prices, Hansen said he doesn't understand why Congress and the rest of the country haven't welcomed the new technology.

"We feel we can produce it for about $52 per barrel," he told United Press International.

But that doesn't mean it will cost that much to buy the oil.

"We're not going to turn around and sell it for that," Hansen said. "We have to make a profit."

In the end, the problem is that U.S. policymakers often start with the supply side of the issue, instead of demand, said Joe Stanislaw, chief executive officer of The JAStanislaw Group, an advisory firm for investment in energy and technology.

"For example, if we in the United States had the average fuel economy of European cars, we could decrease our oil consumption between 2 million and 3 million barrels a day," Stanislaw told UPI.

High oil prices may turn out to have one positive effect as they spur Americans to finally change their energy consumption habits, Stanislaw said.

"We have a challenge on our hands," he said. "Why not see it as an opportunity to begin to change the thought process of Americans in relation to how we use energy?"

Energy and the Executive
WSH, May 19, 2008; http://online.wsj.com/article/SB121105403544501297.html?mod=googlenews_wsj

By PETE DU PONT
May 19, 2008

This election is notable in many ways. For the first time since 1952, neither the president nor the vice president will be his party's presidential nominee. For the first time since 1960, a sitting U.S. senator will be elected president. And for the first time ever, if the Democrats win, the next president will be female or black.

We are also at a fork in the policy road, for any of the three major candidates would lead us in very different directions on major public policy issues, from spending and taxation on the one hand, to international relations and the war on terror on the other.

Equally critical will be their direction on how we generate the energy America needs. Over the past 20 years, have our presidents and Congresses allowed us to drill for the additional offshore oil available to fuel our economy and reduce imports? No. Have they encouraged the building of nuclear power plants that would generate pollution-free energy? No. Are they now supporting the building of coal-fired power plants to generate the electricity our economy needs? No.

We have an abysmal national energy policy, and as our population grows and our economy expands, energy needs will increase. From 1980 to 2006 America's annual energy usage increased from 78 to 100 quadrillion British thermal units, and the figure is estimated to grow to 118 quadrillion BTUs by 2030. If our regressive energy production policies continue when the next administration takes office, our economy and the personal lives of Americans will be severely affected.

We have failed to increase our country's crude oil production. Domestic oil production has declined, to 1.9 billion in 2007 from 3.1 billion barrels in 1980, while imports increased to 3.7 billion barrels from 1.9 billion. We now importing about 60% of the oil we use.

One reason for the imports is that our public policy has forbidden offshore oil drilling for much of the estimated 85 billion barrels of recoverable oil and 420 trillion cubic feet of natural gas (an 18-year supply) that are on the Outer Continental Shelf, and another 10 billion barrels of oil in Alaska. Together they could replace America's imported oil for about 25 years, but the first President Bush issued a directive forbidding access to a significant portion of the Outer Continental Shelf. President Clinton extended the restriction through 2012 and vetoed legislation that would have allowed drilling in Alaska.

So America has large amounts of oil and gas, but our efforts to extract it have been significantly reduced by the federal moratorium on drilling. America remains the only nation in the world that has curtailed access to its own energy supplies/ Meanwhile China will soon begin drilling for oil off Cuba and in Venezuela.

Among the worst antienergy policies we have experienced was President Carter's 1980 "windfall profits tax" on oil companies, which reduced domestic oil production by between 3% and 6% and increased imports by 8% to 16%. Yet last week Majority Leader Harry Reid and 20 other Senate Democrats introduced a similar 25% tax.

We have failed to allow the construction of new nuclear power plants to add to the 104 that we have in operation. Nuclear power is clean and efficient, but no new nuclear plant construction has been granted permits in the past 30 years. By contrast, China plans to build 40 nuclear power reactors in the next 15 years -- two or three each year.

Nor are we fully using the huge coal resources America has. We have in the past, but an effort to prohibit them has become the environmentalists' goal. NASA climatologist James E. Hansen said last month that "building new coal-fired plants is ill conceived," and that it is time "for a moratorium on coal now with phase-out of existing plants over the next two decades." The phase-out is under way: Of the 151 coal-fired plant construction proposals in 2007, more than 60 have been abandoned as the result of environmentalist pressure. And last month Gov. Kathleen Sebelius of Kansas vetoed a bill that would have allowed the construction of two new electricity generators at an existing coal fired power plant -- because they would emit greenhouse gasses.

We have also pursued new energy policies that turn out to be mistaken. Ethanol is perhaps the best example, with congressional enactment of ethanol subsidies -- 51 cents a gallon for production of it, and a 54-cent-a-gallon import fee to keep competitive, less expensive and more environmentally friendly ethanol out of America. Congress in 2005 required 7.5 billion gallons of ethanol to be produced by 2012; and then in 2007 upped that to 36 billion gallons by 2022. President Bush enthusiastically supports subsidized ethanol, and Barack Obama believes there should be a 65-billion-gallon ethanol mandate. Only John McCain wants to end ethanol subsidies and import fees.

Ethanol was a bad idea from the start, for as The Wall Street Journal recently reported, producing one gallon of ethanol requires 1,700 gallons of water (primarily to grow corn). The journal Science recently found that "corn-based ethanol, instead of producing a 20% savings, nearly doubles greenhouse emissions over 30 years."

The good news is that an effort to reverse all these antienergy, antigrowth policies is beginning. Earlier this month Sen. Pete Domenici (R., N.M.) introduced the American Energy Production Act to expand offshore oil production, establish a leasing program to get to Alaska's untapped 10 billion barrels of oil, and support the construction of new oil refineries. The last is a particularly good idea, for it has been 30 years since we have built one in the United States.

The May 11 New York Times contained a surprisingly sensible lead editorial: "The time has come to rethink ethanol. . . . Specifically, it is time to end an outdated tax break for corn ethanol and to call a time out in the fivefold increase in ethanol mandated in the 2007 energy bill."

So perhaps America is beginning to rethink its flawed energy policies. And so it must, for our challenge is to remain competitive in a growing global economy, and that requires feeding the engines of growth with more energy. Our next president must advance drilling for offshore oil, building nuclear power and clean coal fired plants, and developing other energies such as solar and wind power. Otherwise America's people will miss future opportunities and slip backwards economically, and our country will become far worse off than it is today.

Appeals stall offshore oil project

Lompoc Record, May 23, 2008; http://www.lompocrecord.com/articles/2008/05/23/news/news02.txt

By Sam Womack/Staff Writer

A precedent-setting offshore oil drilling project approved last month after a much-trumpeted compromise between the oil company and environmental groups is stalled indefinitely because a competitor has appealed the project to the Santa Barbara County Board of Supervisors and accused the county Planning Commission of breaking the law.

The competitor, Sunset Exploration Inc., claims that the Planning Commission's approval of the slant-drilling proposal violated the Brown Act, California's open-meetings law, because commissioners improperly considered the environmentalists' compromise agreement in making their decision.

In response, county attorneys and other staff members say that no violation of the Brown Act occurred at the April 21 meeting regarding Plains Exploration and Production Co.'s proposal to reach the Tranquillon Ridge oil field in state waters by slant-drilling from its Platform Irene in federal waters.

The Planning Commission is scheduled to give its official response to the allegations when it meets at 9 a.m. Wednesday in the county administration building at 123 E. Anapamu St. in Santa Barbara. Planning Commission hearings are typically broadcast live on Government Access cable television channel 20, and rebroadcast Fridays at 5 p.m.

The proposal by Plains Exploration, also known as PXP, is precedent-setting because it involves taking oil from beneath state waters, which extend three miles out from the shore. The oil platforms off Santa Barbara County are beyond the three-mile limit in federal waters, and drilling from them has always been into oil fields in federal waters.

Sunset has been working in partnership with ExxonMobil on a competing project to take the oil from Tranquillon Ridge, but Sunset proposes to slant-drill from the shore rather than from an offshore oil platform. The partnership calls its plans the Vahevala Oil and Gas project.

However, the Vahevala proposal depends on leasing land from Vandenberg Air Force Base, and Air Force officials have not approved the idea. Without consent of the land owner and a promise of cooperation from Vandenberg, county planning and development officials said they will not move forward to consider Sunset's plans.

In claiming a Brown Act violation, Sunset said the Planning Commission's approval of PXP's proposal rested at least in part on the "third-party" agreement negotiated by PXP and a trio of longtime Santa Barbara County environmental groups: the Environmental Defense Center, Get Oil Out!, and the Citizens Planning Association.

The parties have kept the agreement private, releasing only a general summary to the county and the public. Because of this, Sunset claims the agreement cannot legally be used as substantial evidence in the county's decision-making process.

The county counsel warned commissioners at their April 21 meeting not to let the summary of the compromise agreement affect their decision.

After the public announcement of the private agreement, county planners made last-minute changes to the project description that they presented to the Planning Commission to include an earlier end date for drilling and a greenhouse gas mitigation package - which were terms negotiated by PXP and the environmental groups.

The agreement also includes the donation of PXP property that had been proposed for a controversial subdivision in the La Purisima Hills near Lompoc, thousands more acres adjacent to the Burton Mesa chaparral preserve, and 200 acres on the Gaviota coast.

PXP originally proposed drilling for 30 years, but as part of the compromise amended its request to read that the company would close Tranquillon Ridge, Point Pedernales, Platform Irene and its Lompoc onshore oil and gas plant after only 14 years, by Dec. 31, 2022.

Also incorporated into the proposal was payment of a set amount of money for each ton of greenhouse gas emitted from the Tranquillon Ridge Project.

First District Planning Commissioner Michael Cooney, an attorney with a specialty that includes the Brown Act, said he had no apprehension that the board had acted beyond the law.

"The Brown Act claim is dependent on showing that we were relying on the terms of the agreement to make our decision," Cooney said. "But those terms were purely between the parties."

If the Planning Commission rejects Sunset's claim of the Brown Act violation when it meets Wednesday, the company could take its complaint to the district attorney's office, said Kevin Drude, a county energy specialist who helped prepare the staff report on the PXP project.

Separate from Sunset's Brown Act claim, Sunset and ExxonMobil Exploration Company, Vaquero Energy Inc., and Bruce W. Bell have appealed the Planning Commission's approval of the PXP project to the Board of Supervisors.

No date has been set for the supervisors to consider the appeals, Drude said.

Meanwhile, without Board of Supervisors approval, PXP cannot move forward to be considered by the state Lands Commission, the California Coastal Commission or the U.S. Minerals Management Service, which oversees federal oil and gas production.

Both PXP and ExxonMobil are members of the Western States Petroleum Association. The group's president, Joe Sparano, said Thursday that the competition for Tranquillon Ridge oil "illustrates just how critical it is to access the reserves everyone knows are there."

Oil Industry, Lawmakers Aim To Lift Bans on Drilling
WSJ, May 23, 2008; http://online.wsj.com/article_print/SB121149858423815755.html

Fears Over Supply Drive Push to Enter Protected U.S. Areas

Mounting concerns about global energy supply are fueling a drive by the oil industry and some U.S. lawmakers to end longstanding bans on domestic drilling put in place to protect environmentally sensitive areas.

Increasing U.S. oil production would require overturning decades-old moratoriums that limit offshore drilling and accelerating leasing of federal lands, moves that would trigger a swift and vigorous political backlash. Still, as gasoline prices continue to climb and squeeze household budgets, the momentum appears to be gaining to open up new areas.

Oil prices have soared 36% this year, though the price of a barrel of crude for July delivery settled at $130.81 on the Nymex on Thursday, down 1.8% from its record close Wednesday.

"These prices are making voters realize we need to produce [more] energy" domestically, said Rep. John Peterson, a Republican from Pennsylvania who is pushing legislation to open up new offshore areas for energy exploration. The U.S. imports two-thirds of its oil, though less than one-sixth of its natural gas, according to federal data. The rest is produced domestically.

A century and a half after oil production began, there is ample evidence that a lot of oil -- and natural gas -- remains to be found in the U.S. and its territorial waters. Some of those areas are wide open to oil companies, including most of the Gulf of Mexico where deep-water floating rigs now routinely drill wells hundreds of miles from shore. Even in the gulf, areas are off limits, including most of the waters off the Florida coast. The entire East and West Coasts are off limits for new drilling.

Last week, Exxon Mobil Corp. Chief Executive Rex Tillerson chided President Bush for asking Saudi Arabia to boost its production, while not doing more to increase production at home in the U.S., particularly off the coasts of Florida and California.

"There is no question in my mind that there is significant conventional resources available," Mr. Tillerson said in an interview last week. "If you are looking for larger fields, they will probably be found in the offshore areas that are currently off limits."

Those offshore areas are closed to exploration and drilling under congressional moratoriums and presidential executive orders that command broad support among elected officials in the politically powerful states of California and Florida. Opening these areas up could prove nettlesome.

Little data exist about how much oil and gas might be found under the waters now closed for exploration. Federal agencies are prevented from doing rudimentary geological surveys in most areas to pinpoint areas of interest. The last time the industry shot seismic imagery was in the 1970s when this widely used search technology was in its infancy.

Other promising areas onshore also are off-limits. In a report last week, the federal Bureau of Land Management stated that at current U.S. consumption levels there are four years worth of oil and 10 years worth of natural gas under federal lands. However, more than 90% of that energy was under lands either closed to development or open with significant environmental restrictions. The federal Minerals Management Service said an additional three years worth of oil and gas is in offshore areas where drilling isn't allowed.

"People have no idea what kind of resources might be out here," said Duane Zavadil, vice president for government and regulatory affairs for Rocky Mountains producer Bill Barrett Corp. He said his company could double or triple its production growth if regulatory hurdles were relaxed.

Critics of the land management bureau's report -- including some Democratic congressional leaders -- argue that it gives a false impression that more drilling will lead to lower gasoline prices. They note that drilling on federal lands has increased steadily during the Bush administration, even as gas prices have risen.

"We simply cannot drill our way to lower prices at the pump," Rep. Nick Rahall (D., W.Va.), chairman of the House Natural Resources Committee, said in a written statement.

Environmental critics contend that new gas drilling in the Rockies requires densely packed wells, turning natural vistas into industrial landscapes. But others respond new horizontal wells allow the industry to drill a cluster of wells in a single spot to drain a large area, minimizing the area affected.

"It's undeniable the environmental impact is far less now than it was 25 or 30 years ago. The footprint is something like one-tenth what it used to be," said Kurt Gibson, deputy director of the oil-and-gas division of Alaska's Department of Natural Resources.

Examples exist of environmental groups and the industry finding middle ground to pave the way for exploration. In April, a consortium of environmental groups agreed to drop opposition to an oil development that would drill wells beneath waters off Santa Barbara, Calif., in exchange for several concessions from the oil company, including a promise to conclude production by 2023.

In Selma, Ind., one resident finds natural gas and oil on his 10 acres. Video courtesy of Reuters.
New drilling techniques also are driving production in places such as North Dakota's Bakken field, which the federal government estimated in 1995 held 150 million barrels. This year, an updated assessment put the figure at 3.65 billion barrels, said Brenda Pierce, coordinator of the U.S. Geological Survey's Energy Resources Program. "We have the potential to grow production," she said. "We just have to weigh it against all the consequences."

In Washington, Republican lawmakers and oil-industry lobbyists are arguing that opening restricted areas would boost supply and bring down oil prices. Critics contend not enough is being done to encourage alternative fuels and development of already-leased federal lands. Of the more than 45.5 million acres of federal land under lease, oil companies aren't producing oil or gas on 31 million acres.

"Why would we expect oil and gas companies to rush these new areas into production, when they are sitting on literally millions and millions of acres of existing leases without carrying out any production on them?" said Sen. Jeff Bingaman (D., N.M.).

This snail's pace is leading some to try to wrest back existing leases. Alaskan officials are locked in a legal battle with Exxon, BP PLC and Chevron Corp. to reclaim leases on a North Slope oil-and-gas field that is estimated to hold eight trillion cubic feet of natural gas and hundreds of millions of barrels of oil. The companies acquired the leases decades ago but have yet to produce oil or gas. Exxon, which holds the largest interest in the field, has said in the past that it hasn't drilled because there is no pipeline to move the gas to market.

Crude Scapegoats
Investors Business Daily, May 21, 2008;
http://www.investors.com/editorial/editorialcontent.asp?secid=1501&status=article&id=296263015116278

Energy: It's now a cliche: fat-cat oilmen control our destiny by holding back supplies, letting prices soar, then pocketing the profits. But if any fat cats are to blame for the energy crisis, it's those on Capitol Hill.

Funny how so few, especially our friends in the mainstream media, seem to notice Congress is the culprit. When it's not stopping the development of the energy resources we need, it's busy demonizing the very entities — such as the oil companies — that can go get them.

We raise this issue because, once again, Congress has dragged oil company chiefs to Washington for Star Chamber hearings where the innocent are presumed guilty before they even take a seat.

Democrats like Sens. Patrick Leahy, Herb Kohl and Dick Durbin are very skilled at the blame game. On Wednesday, they called on oil bosses to account for high oil prices and ripped them for their profits and pay packages. Everything, in other words, but propose real solutions to our problems.

"Do market forces alone explain the skyrocketing price of oil and gas?" Kohl wondered. We'll take that one: No, senator, market forces alone don't explain it; congressional incompetence does.

Of the "solutions" Congress has pushed — including limits on CO_2 output, windfall profit taxes, restrictions on drilling on public lands and, most recently and absurdly, suing OPEC — all lead to less oil and higher prices.

We agree our economy could do more to save energy. And with oil prices over $130 a barrel, it will. (Indeed, U.S. oil use this year is down 2.2% from 2006.) That said, the main solution should be to drill for more oil and gas on our own territory. Billions of barrels and trillions of cubic feet await.

"When energy prices are high, the urge to point fingers at oil companies is strong," said J. Stephen Simon, senior vice president of Exxon Mobil Corp. "But undercutting the ability of American companies like Exxon Mobil to compete in a huge global marketplace only makes it harder for Americans to secure the energy they need at competitive prices."

Bingo! That oil has surged to $130 a barrel is no surprise: The supply is shrinking. Yet, Congress refuses to let our oil companies tap the massive assets that lie offshore and under our mountains — reserves that dwarf what we have today.

Our Outer Continental Shelf contains as much as 86 billion barrels of oil and 420 trillion cubic feet of gas, according to the U.S. Minerals Management Service. That's more than 10 times the oil and 20 times the natural gas we use each year.

Then there's oil shale. At least 1 trillion barrels of crude — possibly as many as 2 trillion — lie in formations across the Rocky Mountains and into Canada. "This," the Institute for Energy Research said recently, "is more than seven times the amount of crude oil reserves found in Saudi Arabia, and enough to meet current U.S. demand for over 250 years." Yet we don't want to disturb it.

And then, of course, there's the Arctic National Wildlife Refuge. Since 2000, U.S. oil consumption has increased roughly 750,000 barrels a day. If we had started drilling in ANWR back in 1995 — when President Clinton and congressional Democrats joined to kill it — we'd have an extra 1 million barrels of oil a day now.

The problem is clear: We now pump about 5 million barrels on our own and import 12 million, making us vulnerable to market blackmail by foreign producers. As recently as 1985, we pumped 9 million on our own and imported just 4.3 million.

This is our energy deficit, created by congressional incompetence and inaction. It's time to stop the blame and start the drilling.