

Week in News: September 8-14, 2008

Pump prices soar after Ike

USA Today, September 14, 2008; http://www.usatoday.com/money/industries/energy/2008-09-14-gasoline-ike_N.htm

Offshore Drilling Is Coming to a Vote

Washington Post, September 14, 2008; <http://www.washingtonpost.com/wp-dyn/content/article/2008/09/13/AR2008091302428.html>

Drill, Baby, Drill?

Fox News, September 13, 2008; http://foxforum.blogs.foxnews.com/2008/09/13/kmedlock_0913/

Drilling for Dollars

WSJ, September 12, 2008; http://online.wsj.com/article/SB122117603688025815.html?mod=googlenews_wsj

Oil rises as Ike bears down on Texas coast

Associated Press, September 12, 2008; <http://ap.google.com/article/ALeqM5i5TtaigUpSm7KY5jf-ICJGHBB-tAD93581300>

Senate Leaders Discuss Options on Energy

CQ Today, September 12, 2008;
<http://www.cq.com/document/display.do;jsessionid=AD0CAAC8789DBBC2B09E55023FE01650.upolu?matchId=65016195>

Outer Continental Shuffle

WSJ, September 12, 2008; http://online.wsj.com/article/SB122117598127425809.html?mod=googlenews_wsj

Democrats Unveil Limited Oil Drilling Bill, Including Offshore 'Buffer'

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<http://www.cq.com/document/display.do;jsessionid=E03E905ACE0DE19ED2473D35EEC85A5E.upolu?matchId=64951864>

That GOP Energy Protest May Not Be Over

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House Democrats Expand Proposed Oil, Gas Drilling

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House Bill Would Loosen Coastal Drilling Restrictions

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Report Says Oil Agency Ran Amok

Washington Post, September 11, 2008; <http://www.washingtonpost.com/wp-dyn/content/article/2008/09/10/AR2008091001829.html>

House Dems expand coastal drilling plan

E&E, September 11, 2008; <http://www.eenews.net/EEDaily/2008/09/11/1/>

Palin's Pipeline Is Years From Being a Reality

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Democrats offer new offshore drilling plan

Associated Press, September 10, 2008;
<http://ap.google.com/article/ALeqM5gB6bi0EyTozdEPy0KGisTQNaS2PQD9346A381>

Concession Surfaces on Drilling

CQ Today, September 10, 2008;

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Sex, Drug Use and Graft Cited in Interior Department

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Gang of 16 gets flak on offshore issue

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Democrats Start on Energy Plan

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Democrats look to more drilling

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Ahead: 'Whale of a Fight' Over Offshore Drilling

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<http://www.cq.com/document/display.do;jsessionid=B0582B90773D0A181357CEAC298C22C8.monhegan?matchId=64733258>

Offshore companies getting out of the way, again

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House Dems plan vote on offshore drilling, renewables bill this week

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Reid floats votes on competing drilling plans next week

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Conservationists asking to keep ban on off-shore drilling

Foster's Daily Democrat. September 9, 2008;

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Drilling for a 'comprehensive' energy plan

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http://www.boston.com/news/nation/articles/2008/09/09/drilling_for_a_comprehensive_energy_plan/

Dems' offshore drilling plan comes with catch

San Francisco Chronicle, September 9, 2008; <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/09/09/MN1E12QE1Q.DTL>

Oil and gas exploration all the rage on Capitol Hill

Houston Chronicle, September 8, 2008; <http://www.chron.com/disp/story.mpl/business/5990584.html>

Congress warms to new oil drilling

Associated Press, September 8, 2008; <http://ap.google.com/article/ALeqM5imPz0z6szykAL-CAKZDEZOAiDREgD932RF400>

House GOP Threatens Shutdown Over Drilling

CQ Today, September 8, 2008;

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Wind: The other untapped offshore energy source

Associated Press, September 8, 2008; <http://www.forbes.com/feeds/ap/2008/09/08/ap5400562.html>

Congress to revisit fight over offshore oil drilling

CNN, September 8, 2008; <http://www.cnn.com/2008/POLITICS/09/08/congress.energy/>

Pump prices soar after Ike

USA Today, September 14, 2008; http://www.usatoday.com/money/industries/energy/2008-09-14-gasoline-ike_N.htm

By Barbara Hagenbaugh

Gasoline prices jumped at the fastest pace in three years over the weekend and topped \$4 a gallon in some areas after Hurricane Ike, but oil prices fell Sunday as investors bet damage to the nation's oil and gasoline production will be less than expected.

There were warnings of gasoline shortages throughout the USA as energy production was at a near-standstill in the Gulf of Mexico. The government is releasing oil from its emergency stockpiles to refineries experiencing shortages.

Oil fell below \$100 a barrel for the first time since March 4 in special trading in energy futures markets in New York. Gasoline and heating oil contracts also fell. But prices were for delivery in October, so the declines won't be immediately felt by consumers.

"The market is betting that the storm isn't going to be as bad as feared in terms of damage," Alaron Trading analyst Phil Flynn says.

Fifteen refineries on the Gulf Coast were shut down on Sunday, including ExxonMobil's Baytown, Texas, facility, the largest refinery in the USA. And 99.7% of oil production in the Gulf of Mexico was halted, the government said.

Federal officials said two drilling rigs were adrift in the central Gulf. But it will likely be several days before companies have a full assessment of damage to all facilities and can begin to bring production back online, American Petroleum Institute spokesman Robert Dodge says.

With refineries down, drivers likely will see isolated gasoline shortages, Oil Price Information Service analyst Tom Kloza says.

The U.S. average price of a gallon of regular rose more than 6 cents overnight to \$3.795 Sunday, according to AAA and OPIS.

Prices have risen 11 cents since Friday — the biggest two-day jump since after Hurricanes Katrina and Rita hit in 2005 — and are \$1 higher than a year ago.

Averages were at or above \$4 a gallon in seven states. In Georgia, the average jumped more than 16 cents overnight to \$4.025 Sunday, AAA and OPIS reported.

The government on Sunday said it was releasing more than 300,000 barrels of oil from the Strategic Petroleum Reserve to two refineries experiencing shortages, a ConocoPhillips refinery in Illinois and a Placid Oil refinery in Louisiana.

It was the third time in less than a week that oil was released from the emergency stockpile. Supply had already been disrupted by Hurricane Gustav.

Offshore Drilling Is Coming to a Vote

Washington Post, September 14, 2008; <http://www.washingtonpost.com/wp-dyn/content/article/2008/09/13/AR2008091302428.html>

Democrats to Offer a Mix of Proposals

By Paul Kane

Congressional Democrats, balancing political reality against a policy they have long opposed, are on the cusp of approving legislation that would open the Atlantic and Pacific oceans to oil drilling as close as 50 miles offshore.

With votes scheduled this week in the House and Senate, Democrats have essentially given up defending the current ban on drilling within 200 miles offshore along both coasts. Instead, led by House Speaker Nancy Pelosi (D-Calif.), they are offering a mix of proposals that would allow drilling, with the waters off Massachusetts, Virginia and Georgia most likely to be the first affected.

Environmentalists and industry analysts disagree over the impact the various legislative proposals would have on oil production, with industry experts contending that the most precious reserves still would be off-limits. But both sides agree that -- because of the politics of \$4-a-gallon gasoline this summer and a pending legislative deadline -- the nearly 40-year drilling ban is in jeopardy.

"It's in deep, deep trouble. I won't pronounce it dead, but it's in deep trouble," said Warner Chabot, a vice president of the Ocean Conservancy, an environmental group opposed to drilling.

House and Senate Democrats have been assembling different proposals for the past few weeks after absorbing months of Republican criticism as gas prices soared. Under pressure from moderate Democrats fearful of November election losses, Pelosi took the first formal step Wednesday by unveiling a proposal that would open the Atlantic and Pacific coasts to drilling at least 100 miles offshore. If governors and state legislatures agree, drilling off each state's coast would be allowed 50 miles from shore.

Pelosi had previously suggested opening only portions of the southeastern Atlantic coast and some of the eastern Gulf of Mexico to drilling, but ultimately offered to allow drilling off both coastlines. The eastern gulf off Florida's west coast would remain off-limits.

Under the Pelosi bill, scheduled for a vote Tuesday, the federal government would not share royalties with the states, devoting the money instead toward federal funding for renewable energy resources. Taxes on oil companies would be increased, with that revenue also going to alternative energy sources.

A separate proposal, developed by about 20 Senate Democrats and Republicans, also would move the drilling boundary to 100 miles offshore, with states given the option to set it at 50 miles. But under that plan, new Atlantic drilling would be limited to Virginia, North Carolina, South Carolina and Georgia. The Senate plan would allow no drilling in the Pacific.

In a key difference with Pelosi's bill, the Senate legislation would allow new drilling off Florida's west coast.

Some industry experts question the effect of the proposals, citing federal studies that show that more than 80 percent of known oil reserves are inside the 50-mile limit and therefore unavailable. Very little is known about oil reserves beyond 100 miles. Waters off almost the entire Pacific coast -- where all three governors oppose drilling at the 50-mile barrier -- is considered too deep for drilling 100 miles offshore.

"You would just open a door to an empty room at the end of a very long hallway," said Brian Kennedy, spokesman for the Institute for Energy Research, an organization funded by the oil industry. Kennedy also said that, without some sort of revenue sharing for state governments, there would be little incentive for states to approve additional drilling.

With revenue sharing, Virginia and Georgia would quickly approve offshore drilling at the 50-mile mark, Kennedy and some environmental experts predicted. The biggest target for new drilling at the 100-mile mark would be in the Georges Bank, off the coasts of Massachusetts, Maine and New Hampshire, where cod fishing was once the dominant industry. Oil and natural gas already are extracted not far away, in Canadian waters.

The most sought-after area, however, is the eastern Gulf of Mexico near Florida's western coast. Drilling rigs already operate in the gulf off Houston, New Orleans and Mississippi, giving oil producers a near-certain guarantee of finding oil near Florida. It also would be less costly for producers to move their production and delivery systems to the other side of the gulf than to place new rigs in previously unexplored regions of the Atlantic or Pacific.

Sen. Bill Nelson (D-Fla.) has vowed to filibuster any legislation that would open the waters off Florida's western beach resorts, to protect his state's tourism industry and the military testing areas for Navy and Air Force bases in the region. "If they want to get something done, they have to deal with me," Nelson said in an interview Friday.

Republicans have been skeptical about Pelosi's proposal, because environmental groups such as the Sierra Club have endorsed it as "a chance for clean energy gains that would represent a giant step in solving our energy crisis."

Many lawmakers privately predict the energy legislation will stall in parliamentary gridlock, but Congress has its own statutory deadline to deal with by Sept. 30. At that point, the annual congressional moratorium on offshore drilling expires. President Bush lifted the executive ban on offshore drilling early this summer.

That means Pelosi has barely two weeks to forge a compromise or face the end of the moratorium. That would allow drilling within three miles off all coasts. Faced with such a predicament, Democrats are increasingly likely to add their new drilling legislation to a catchall spending bill that will fund most of the government into next year.

Such a decision would dare Bush to veto the legislation and shut down the federal government over the GOP's preferred drilling plan. But if Republicans accepted the compromise, it would lead to increased offshore oil drilling under the watch of a Democratic Congress, a concept that was unfathomable just six weeks ago.

Drill, Baby, Drill?

Fox News, September 13, 2008; http://foxforum.blogs.foxnews.com/2008/09/13/kmedlock_0913/

By Kenneth Medlock

Fellow in Energy Studies, James A. Baker III Institute for Public Policy/ Adjunct Assistant Professor, Department of Economics at Rice University

Among the many chants from the raucous crowd during Sen. John McCain's acceptance speech at the Republican Convention earlier this month was, "drill, baby, drill!"

This is a good idea. We must produce more oil domestically and put a greater proportion of our nation's energy future in our own hands.

The renewed focus on offshore drilling is still a topic of conversation nationwide including at Opposing Views.

On the site I debate representatives from the Natural Resources Defense Council and Sierra Club, who both say NO to offshore drilling. The NRDC says, "it could be years before America reaps any benefits from expanded coastal drilling, and even then it will be a matter of cents, not dollars." The Sierra Club raises environmental concerns: "...there is no safe way to drill our coasts. Where there is drilling, there are oil spills," claims Sierra.

This is simply NOT true.

While the estimated 19 billion barrels of oil just sitting offshore amounts to only two years of our consumption, a more appropriate way to consider the issue is that if the Outer Continental Shelf (OCS) could provide an additional production of 1 million barrels per day of oil, our Persian Gulf imports could be reduced by up to 40 percent. At 1 million barrels per day, 19 billion barrels would last about 50 years.

Some opponents point out that there may not even be 19 billion barrels. But, in fact, there may be more! Isn't it better to know than to not know? If there isn't much oil, then drilling won't occur anyway.

We must also remember that the Interior Department says the offshore oil industry is among the safest in the country. In fact, a recent study by the National Academy of Sciences reports that in the last 15 years there were zero platform spills greater than 1,000 barrels.

Then there is our nation's so called "addiction to oil." While I agree we must find alternatives, that shouldn't preclude more drilling. Development of new oil supplies should be considered an interim step that is part of a larger strategy designed to move us toward an economy that is no longer so utterly dependent on oil. I propose diverting

some of the profits from new drilling to research for alternative energy, this way resources from the Outer Continental Shelf could serve as a bridge to a new energy future.

A new energy future is what our country needs — we all can agree on that. To drill or not to drill, that is the question. If it can help us get to that new future, why wouldn't we?

Drilling for Dollars

WSJ, September 12, 2008; http://online.wsj.com/article/SB122117603688025815.html?mod=googlenews_wsj

Congress is usually scrambling for revenue to spend, not rejecting it out of hand. Which makes it all the more strange that Democrats have resisted the windfall they stand to collect if they drop their ban on offshore oil-and-gas development (see here).

Allowing drilling isn't the giveaway to industry that Speaker Nancy Pelosi and environmentalist dead-enders claim. In fact, liberating publicly owned resources could net the Treasury as much as \$2.6 trillion in lease payments, royalties and corporate taxes, according to one estimate currently knocking around Capitol Hill. The returns wouldn't roll in overnight, but that's almost a full year of spending even for this spendthrift Congress.

Already, with the ban in place, offshore development is one of the federal government's greatest sources of nontax revenue, amounting to \$7 billion and change in 2007. Energy companies bid competitively to acquire leases upfront, then pay rents. The feds are also entitled to a royalty on the market value of oil and gas when sold. Corporate income taxes on producer profits add to the bank.

All told, studies (some industry-funded, some independent) estimate that the total government take from leases in the Gulf of Mexico ranges from 37% to 51%, depending on the location of the lease. The take is somewhat higher in Alaska.

If the ban were lifted, how much Congress might rake in depends on how much oil and gas is recovered, as well as energy prices, royalty rates and taxes at any given time. A 2007 study by University of California economists Matthew Kotchen and Nicholas Burger concludes that opening up a small portion of the coastal plain of the Arctic National Wildlife Refuge would generate \$251 billion in government and state revenue, with oil at its 2005 price of \$53 per barrel. Prices are now double that.

And that's just for a patch in Alaska. The \$2.6 trillion estimate, prepared by John Peterson (R., Pa.) and Neil Abercrombie (D., Hi.), is a back-of-the-envelope calculation from exploiting the 86 billion barrels of oil and 420 trillion cubic feet of natural gas that the Department of the Interior determines are undiscovered but "recoverable" on the Outer Continental Shelf. And these volumes are almost certainly too conservative.

We don't know what's actually out there because analysis with modern equipment has been forbidden by Congress in many areas for 26 years. Exploration technology is considerably more advanced today.

In other words, Congress can expect buckets of revenue if it gets out of the way of an ocean of oil. Since fossil fuels are expected to provide nearly the same share of total energy supply in 2030 as they do today -- even with major growth in alternative energy -- Washington might as well make a few bucks.

Oil rises as Ike bears down on Texas coast

Associated Press, September 12, 2008; <http://ap.google.com/article/ALeqM5i5TtajgUpSm7KY5jf-ICJGHBB-tAD93581300>

By MADLEN READ

NEW YORK (AP) — Oil prices bounced back above \$102 a barrel Friday as Hurricane Ike swept through Gulf of Mexico, prompting companies along the Texas coast to shut down refining and drilling operations.

Ike is forecast to land early Saturday as a Category 3 hurricane near Galveston, a barrier island about 50 miles southeast of Houston. The Houston region is home to about one-fifth of U.S. refining capacity, and the site of a major fuel and grain distribution channel.

Light, sweet crude for October delivery rose \$1.43 to \$102.30 a barrel in morning trading on the New York Mercantile Exchange. The contract fell \$1.71 overnight to settle at \$100.87 after dropping as low as \$100.10 per barrel. The last time Nymex crude traded below the \$100 mark was April 2.

Gasoline prices also rose. October gasoline futures climbed 8.97 cents to \$2.8385 a gallon on Nymex, while the average U.S. retail price for gasoline edged up less than a penny to \$3.675 a gallon, according to auto club AAA, the Oil Price Information Service and Wright Express.

Exxon Mobil Corp., Valero Energy Corp., ConocoPhillips and Marathon Oil Co. have begun halting operations as the Category 2 hurricane headed straight for the nation's biggest complex of refineries and petrochemical plants. U.S. wholesale gasoline prices spiked 30 percent Thursday.

As of Thursday, about 97 percent of crude production and 93 percent of natural gas production in the Gulf were shuttered, according to the Department of the Interior's Minerals Management Service.

Early Friday, the storm was centered about 370 miles southeast of Galveston, Texas, moving to the west-northwest at 12 mph. Top sustained winds were 100 mph. Ike is huge, taking up nearly 40 percent of the Gulf of Mexico. The National Hurricane Center said tropical storm-force winds of at least 39 mph extended across more than 510 miles.

Ike and last week's Hurricane Gustav have helped to stanch a sharp downturn in oil prices. Concerns over slowing economic growth on a global scale and a strengthening U.S. dollar have led funds to liquidate their commodities holdings, pushing crude prices down about 30 percent from their record \$147.27 set on July 11.

"Oil demand on a global basis is quite pessimistic," said Tetsu Emori, a commodity markets fund manager with ASTMAZ Futures Co. in Tokyo. "If it wasn't hurricane season, crude would be under \$100 already."

And storms can dampen demand even more, by disrupting the local economy, power plants, and electrical distribution systems.

Amid a much slower U.S. economy that caused June fuel demand to fall more than 5 percent from the same period a year ago, many market watchers are expecting oil prices to resume their tumble.

"With demand being down as much as it is, the market, some argue, is a bit oversupplied," said Stephen Maloney, a senior consultant in energy risk management at Towers Perrin. "When you ask, how does Ike affect things? Its impacts are going to be in the context of lower demand for products than a year ago."

In other Nymex trading, October heating oil futures rose 4.25 cents to \$2.9580 a gallon. Natural gas for October delivery rose 28.5 cents to \$7.533 per 1,000 cubic feet.

In London, October Brent crude rose 94 cents to \$98.58 a barrel on the ICE Futures exchange, after closing at a six-month low in the previous trading session

Senate Leaders Discuss Options on Energy

CQ Today, September 12, 2008;

<http://www.cq.com/document/display.do;jsessionid=AD0CAAC8789DBBC2B09E55023FE01650.upolu?matchId=65016195>

By Avery Palmer

With a heated floor battle expected next week, Senate leaders came together Friday in a show of bipartisan unity for a day-long summit on energy.

A group of around 20 senators convened to question experts on the best options for responding to the current energy crisis. This comes as the Senate may consider several proposals next week to expand domestic oil and gas drilling or advance renewable energy sources.

Majority Leader Harry Reid, D-Nev., was optimistic that a long-term consensus could develop on these highly controversial issues. "As the fall campaigns heat up, we've seen energy moving into a more partisan realm," he said. "But on the other side, we're seeing critical consensus."

However, it remains unclear if this consensus will come to fruition soon enough for the Senate to debate a bill this month. Minority Leader Mitch McConnell, R-Ky., made it clear that his party would push for a maximum amount of expanded oil drilling — a proposal that could run into opposition from Democrats.

“Conservation alone is clearly insufficient,” McConnell said. “In the near term, we will still need more oil and gas.”

He said proposals now on the table “either ignore the need for domestic supply or they’re disproportionately meager.”

The Senate could take up a series of energy bills next week after finishing debate on the fiscal 2009 defense authorization bill (S 3001). Which measures would be considered, and in what order, is still unclear. Reid said the first bill to come up may be a proposal to extend tax breaks for renewable energy programs, which Sens. Max Baucus, D-Mont., and Charles E. Grassley, R-Iowa, unveiled Thursday.

“We’ve made progress on renewable energy tax credits,” Reid said.

The Senate then could proceed to one of many proposals that include expanded drilling off the U.S. coasts. A bipartisan group of 20 senators has united behind a plan to lift a ban on drilling in the eastern Gulf of Mexico and allow Virginia, North Carolina, South Carolina and Georgia to opt in to offshore drilling. It would reduce tax breaks for oil and gas companies and use the revenue to invest in conservation and efficiency.

Republican Saxby Chambliss of Georgia, one of the plan’s 20 supporters, was optimistic that energy legislation could make it through Congress this year — even though the targeted adjournment date is just two weeks away. “We’re here up against a deadline for adjournment, and it gives us an opportunity, from the way we look at it, to get something done,” he said.

Neither the Republican nor Democratic leadership has signed on to the proposal. McConnell has introduced a bill (S 3202) that would lift the current moratorium on offshore drilling in the Atlantic, Pacific and parts of the Gulf of Mexico. It also would allow the federal government to move forward with an oil shale leasing program on public lands in western states.

Meanwhile, the House will take up energy legislation early next week. House Democrats will bring up a bill giving coastal states the option to permit drilling at least 50 miles off their shores. The bill represents a major concession for the Democratic leadership in order to secure votes from more conservative Democrats in oil-producing states.

Republicans maintain the bill does not go far enough, and say states would have no incentive to allow offshore drilling because the bill does not give them a share of the royalties.

Outer Continental Shuffle

WSJ, September 12, 2008; http://online.wsj.com/article/SB122117598127425809.html?mod=googlenews_wsj

Never underestimate a politician's ability to wriggle out of a clear choice. So it is with the so-called "Gang of 10" energy plan that is becoming the political escape hatch for Members of Congress, especially those "green Democrats" who suddenly want to appear to favor more oil and gas drilling.

The Gang of 10 compromise was released before the August recess by five Senate Republicans and five Democrats. The plan would at least allow drilling offshore of four states -- Georgia, Virginia and the Carolinas -- and in the eastern Gulf of Mexico. It would also allow modern seismic surveillance, which would show how much oil and gas is really out there. Louisiana Democrat Mary Landrieu, who is undeniably pro-drilling, tells us this compromise is about as much as the current Congress will do and would galvanize other states to follow when they see the financial windfall.

The problem is that the proposal still doesn't open drilling enough, and it raises taxes and subsidies in the bargain. Today 85% of the Outer Continental Shelf is off limits for drilling. The Gang of 10 would only reduce that to 75%, according to the pro-exploration Institute for Energy Research. It also allows drilling only outside of 50 miles and only if the states allow it. That arbitrary 50-mile buffer zone is more than three times farther than necessary to be out of sight from shore. It also walls off many of the most promising and least costly drilling sites, such as the Gulf of Mexico's Destin Dome, which is some 25 miles offshore of Florida.

The gang proposal also does nothing to open up more of Alaska, and nothing to remove the ban on exploring oil shale in states like Colorado and Utah. And some Democrats in Congress are insisting that they will go along only if it also includes a permanent ban on drilling elsewhere on the Outer Continental Shelf. When even officials in Santa Barbara, California, have endorsed offshore drilling¹, this compromise amounts to a premature surrender.

The gang would also impose about \$86 billion in new taxes, in large part on oil and gas companies through higher royalty fees and the loss of benefits available to other manufacturers. These new taxes are to be levied on the same companies that paid more than \$100 billion in taxes last year, and they are of course the firms that would have to invest the billions of dollars needed to exploit the new offshore resources.

Naturally, the Members propose to take that \$86 billion . . . and spend it. They propose to ladle it out in subsidies for "clean coal," electric cars, nuclear energy research, biofuels, cellulosic ethanol and solar and wind power. Most of these "alternative" fuels are already heavily subsidized, yet they only supply 7% of America's energy. Wind and solar already receive almost 100 times more in subsidies than oil and natural gas per unit of energy produced, and they still can't compete on commercial terms.

The main thrust of these "investments" is to turn 85% of the U.S. auto fleet into nonoil engines in 20 years. This isn't even remotely plausible, though the Members would nonetheless provide Detroit \$7.5 billion to "retool" to make electric or alternative-fuel cars; \$7.5 billion for research on battery-operated cars; and another \$5 billion for a \$7,500 tax credit for Americans who purchase these "green" cars. If Congress gets much more generous, it might as well promise a hybrid in every garage.

The Gang of 10 proposal is better than current law, but its main purpose is to provide political cover in an election year. Democrats are rushing to embrace it so they can claim to have done something to expand U.S. energy supply, even as voters lose track of the details. The gang is now up to 20 or so in the Senate, and even House Speaker Nancy Pelosi is drafting legislation based on it, which should tell you something about its substance. The Senate Republicans who co-wrote it must not mind being in the minority, because they've made that prospect more likely in November.

Democrats Unveil Limited Oil Drilling Bill, Including Offshore 'Buffer'

CQ Today, September 11, 2008;

<http://www.cq.com/document/display.do;jsessionid=E03E905ACE0DE19ED2473D35EEC85A5E.upolu?matchId=64951864>

By Coral Davenport

House Democrats put forward draft legislation that would loosen restrictions on offshore oil and gas drilling, but Republicans and the oil industry complain that it doesn't go far enough.

While the draft bill would authorize coastal states to permit drilling at least 50 miles off their shores, the states would not share in royalties paid on energy production. Critics say that would eliminate any incentive for states to opt in.

Republicans also contend that blocking drilling closer than 50 miles to shore would put most known reserves off the Pacific coast off limits.

House Democratic leaders are preparing to bring the energy package to the floor as early as Sept. 16.

The decision to accept any drilling off the Atlantic and Pacific coasts represents a turnaround by Speaker Nancy Pelosi, D-Calif., and the House Democratic leadership.

But with the fiscal year ending this month, Congress must pass a spending resolution to keep the government running. Republicans have threatened to block the resolution — and thus cause a government shutdown — unless the legislation allows expanded oil and gas exploration beyond areas already open to drilling in the Gulf of Mexico and off the coast of Alaska. A moratorium on such drilling has been renewed regularly for the past 26 years.

If the moratorium expires, virtually all U.S. coastal waters at least three miles offshore will be open to drilling — although permitting and building the infrastructure will take several years before any new production takes place, according to the Interior Department.

“If we don’t have something after Sept. 30, we go three miles offshore,” said Drew Hammill, a spokesman for Pelosi, who has fought to prevent the expansion of offshore drilling. “That’s a reality we have to live with.”

Hammill acknowledged that the draft legislation unveiled this week would not be Pelosi’s preference.

“If she had absolute power and could make the winds change, she would take a different tack,” he said. “But given political reality, the size of the majority we have, where the Republicans are, the administration we have — these are the cards we’re dealt.”

The draft includes provisions designed to protect Florida beaches by adhering to safeguards included in a 2006 law (PL 109-432) that expanded energy leasing in the eastern Gulf of Mexico but established a buffer zone off Florida’s shores.

Hammill said it will be tough for Republicans to vote against a bill that would expand drilling. “We expect to put Republicans in a tight spot here,” he said.

Revenue Sharing

House Minority Whip Roy Blunt, R-Mo., said the “end goals” of the Democratic plan do not look “too bad.” But he called the lack of revenue sharing with states a serious flaw.

“The states would control access to areas but have no incentive to go there,” Blunt said.

The oil industry agrees.

“Because the bill does not include revenue sharing, it’s doubtful that states would opt in,” said Karen Matusic, spokeswoman for the American Petroleum Institute. “It wouldn’t be desirable for the nation. It’s a smoke-and-mirrors political move.”

Republicans noted that Gulf states already share some revenue from energy production off their shores.

“The disturbing thing for coastal states is the fact that states would be treated differently,” said Rep. Adam H. Putnam of Florida, chairman of the House Republican Conference. “Some would be eligible for revenue sharing, others would not. That is a huge disincentive to additional exploration and raises a significant fairness issue.”

Republicans complained that they have been shut out of writing an energy bill and haven’t seen a draft.

“It’s impossible to say where our members will be because no one has seen a bill,” Putnam said. “As this evolves, we will continue to demand we have an open debate with amendments, just like we teach our eighth graders about how this process works.”

Kevin Smith, a spokesman for House Minority Leader John A. Boehner, R-Ohio, said that although Democrats claim to be opening more acreage, the 50-mile buffer zone would put 95 percent of known Pacific reserves off-limits.

Democrats plan to bring the bill to the floor with a rule under regular order. It is unclear what amendments they might allow.

In addition to the drilling provisions, the House bill also would:

- Release oil from the Strategic Petroleum Reserve to increase market supply and reduce prices.
- Require utilities to produce a percentage of their electricity from renewable sources, such as wind and solar.
- Roll back tax incentives for oil companies and require holders of leases on public lands and waters to pay reasonable royalties.

- Invest in renewable energy and energy efficiency projects.
- Require oil companies to drill on leases they already hold or lose them.

In the Senate, meanwhile, the bipartisan “gang” of senators trying to engineer compromise legislation that would allow a more limited expansion of offshore drilling gained four new members Thursday, expanding its ranks to 20. Republicans Susan Collins of Maine and Elizabeth Dole of North Carolina and Democrats Amy Klobuchar of Minnesota and Evan Bayh of Indiana joined the group.

That GOP Energy Protest May Not Be Over

CQ Today, September 11, 2008;

<http://www.cq.com/document/display.do;jsessionid=6BC91013966FF82248DE79E7D7411096.monhegan?matchId=64930168>

By Edward Epstein

The House voted 208-190 to adjourn this afternoon, but for House Republicans that didn't mean it was time to leave town.

As they did in August, a group of GOP rank and filers stayed behind on the floor to talk about their “all of the above” energy proposal, the same bill they touted all though the August recess in a highly unusual floor protest.

“We brought our case to the American people,” Rep. Lynn Westmoreland, R-Ga., said on the House floor, with the microphones and the TV lights turned off and about a dozen of his colleagues standing behind him waiting their turn to address an all but empty chamber.

He vowed that some Republicans would return to the House floor Friday to continue talking about their demands for an energy bill.

Republicans say their August effort was a success because it gained attention for their pro-offshore drilling stand and, they contend, forced House Speaker Nancy Pelosi, D-Calif., to bring an energy bill to the floor — probably next week if differences within the Democratic caucus can be worked out.

“They're not debating the energy bill with us, the ones who've been here bringing this issue to the American people. They're debating it among themselves,” Westmoreland complained.

House Democrats Expand Proposed Oil, Gas Drilling

WSJ, September 11, 2008; http://online.wsj.com/article/SB122109324329121691.html?mod=googlenews_wsj

Election-Year Plan Opens Door to All Of U.S.'s Coastlines

By GREG HITT and SIOBHAN HUGHES

WASHINGTON -- House Democrats, some chanting “drill, drill,” embraced a plan to open the door for more oil and natural-gas exploration along the entire U.S. coastline, in a shift showing the power of the energy issue in this election.

Under a compromise bill hammered out in a series of closed-door meetings Wednesday on Capitol Hill, the House Democratic leadership agreed on a plan that would authorize drilling along the entire coastline, though new production would hinge on states agreeing to participate. Previously, Democrats proposed opening the door to expanded drilling along only a portion of the Atlantic seaboard, from Virginia to Georgia, and the Gulf Coast of Florida.

The new proposal would potentially open areas off the coast of California that have been closed to new oil drilling for more than two decades. The measure could be voted on as soon as Friday.

The Democrats' turnabout marks a victory for the oil industry and Republicans, who have seized on the drilling issue in recent months. With gasoline prices still high at the pump, polls show Americans in favor of expanded oil production at home, and Republican presidential candidate Sen. John McCain has made the issue central to his campaign, as have congressional Republicans.

Even Sen. Barack Obama, the Democratic Party's presidential standard-bearer, has endorsed expanded drilling as part of a comprehensive bill boosting conservation and renewable energy, such as wind and solar power.

House Democratic leaders hope the expanded plan will strengthen the party's standing in the fight, and rank-and-file Democrats could be heard chanting, "drill, drill," during a closed-door meeting to discuss the measure late Wednesday.

Under the new bill, drilling would be permitted between 50 and 100 miles offshore if a state acts to allow leasing off its coast; waters 100 miles and farther offshore would be open to oil and gas leasing.

The decision to push the more aggressive plan in part reflects the leverage the White House has to shape the agenda. Bush aides have signaled that the president might not support a spending bill needed to finance basic government operations beyond Sept. 30 unless Democrats allow a longstanding moratorium on offshore drilling to expire. It isn't clear if the new House bill will ever become law. But given the sensitivity of the issue -- and the White House's leverage -- the measure unveiled Wednesday can be seen as an opening bid in negotiations over details of the end-of-year spending bill.

The Democratic bill is designed to boost production and conservation, while putting the oil industry and its Republican allies in an uncomfortable position: choosing between much-coveted drilling rights in unexplored areas along the coast or the guaranteed benefit of tax breaks, which the bill would scale back under a provision that extends new tax preferences in support of renewable energy.

The assault on the industry tax cuts alone is likely to raise the ire of Republicans. But the Democratic bill goes on to include several measures of concern to Republicans, including a provision requiring that royalties from expanded drilling be used to pay for domestic needs, such as home-heating assistance to the poor. It also includes a controversial proposal requiring electricity-generating utilities to scale back use of coal and begin using greater amounts of renewable fuels.

Even if the House passes the legislation, expanded offshore drilling is far from assured. The Senate must pass companion legislation, which must be signed by the president, and even then oil rigs wouldn't sprout up overnight. "There's still a process involved here before you can go out and lease," said Rep. Nick Rahall (D., W.Va.).

Rep. Henry Waxman, the California Democrat, suggested Democrats weren't in a strong position on the issue. "We're looking at a moratorium expiring," he said. "I don't think I can stop that."

Faced with the expiration, Mr. Waxman added, "The alternative is to have the states opt in if they want to." He said it was "better to have California have the option to make its decision for itself."

House Bill Would Loosen Coastal Drilling Restrictions

NYT, September 11, 2008; <http://www.nytimes.com/2008/09/11/washington/11cong.html>

By CARL HULSE and DAVID M. HERSZENHORN

WASHINGTON — After months of political assault from Republicans over high gasoline prices, House Democrats are preparing legislation that would relax a decades-old ban on oil drilling along much of the nation's coastline.

The legislation, still being assembled Wednesday for a vote as early as Thursday, would also require utility companies to generate more power from renewable sources, provide tax incentives for alternative energy like wind power and institute new conservation programs.

The measure, which would retain current restrictions on drilling off the Gulf Coast of Florida, would repeal some federal subsidies for oil companies and seek to improve the collection of royalty payments.

“Our energy legislation will bring down gas prices, protect taxpayers, invest in clean renewable energy and provide an American-owned energy policy that the Bush-McCain Republicans have failed to deliver for the past eight years,” Speaker Nancy Pelosi said.

The proposal, coming as the Senate develops a similar plan, represents a stark reversal for Ms. Pelosi, Democrat of California, who had adamantly opposed a vote on an expansion of offshore drilling after being part of the coalition that has kept the coastal ban in place since the 1980s.

But Republicans have captured some political momentum by accusing Democrats of resisting domestic production that could eventually lower gas prices and reduce American dependence on foreign sources of oil. Democrats say the legislation will rob Republicans of a potent issue by giving Democrats an opportunity to vote for more drilling and claim credit for responding to high gas prices.

Top Republicans said that they had successfully forced the Democratic hand on drilling but that the emerging proposal still fell far short of what was needed.

“They are trying to pull a hoax on the American people, something that looks like an energy plan but does nothing about more oil and gas and more American-made energy,” said Representative John A. Boehner of Ohio, the Republican leader. “That’s because their caucus for 30 years has blocked every attempt to open up more drilling for oil and gas in America.”

Under the Democratic approach, the federal government could lease drilling rights 50 to 100 miles off a state’s coastline as long as a state affirmatively “opts in” by passing a state law. Waters beyond 100 miles would be open to federal leasing. National marine monuments and sanctuaries would be permanently withdrawn from any leasing programs. Alternative proposals offered by Republicans would allow drilling as close as within 12 miles of a state’s coastline.

Democrats say the proposal is attracting broad support from lawmakers, appeasing conservative Democrats who had pressed for more drilling and satisfying longtime supporters of the ban who wanted to protect the coastlines of states like California that have opposed drilling. Party officials said they were confident that most Democrats would not abandon the party and support more aggressive Republican alternatives.

Since 1982, Congress has regularly enacted an annual ban on oil leasing off the Atlantic and Pacific Coasts, with critics citing the risk from oil spills. Allies of the oil industry have repeatedly sought to overturn it, but have regularly fallen short. Democratic leaders say the current economic and political climate makes retaining the ban untenable.

Democrats say, however, that the Republican approach is too reliant on new oil production. “That leaves you addicted to oil,” said Representative Rahm Emanuel of Illinois, chairman of the House Democratic Caucus. “Our strategy is tap domestic production but fund the new technologies in the wind, solar and other areas, that will lead towards American’s energy independence.”

The prospect of relaxing the restrictions is drawing strong opposition from the environmental community, which argues that offshore drilling will do nothing to reduce oil prices and that Congress should instead focus on encouraging greater reliance on alternative energy.

Report Says Oil Agency Ran Amok

Washington Post, September 11, 2008; <http://www.washingtonpost.com/wp-dyn/content/article/2008/09/10/AR2008091001829.html>

Interior Dept. Inquiry Finds Sex, Corruption

By Derek Kravitz and Mary Pat Flaherty

Government officials in charge of collecting billions of dollars worth of royalties from oil and gas companies accepted gifts, steered contracts to favored clients and engaged in drug use and illicit sex with employees of the energy firms, federal investigators reported yesterday.

Investigators from the Interior Department’s inspector general’s office said more than a dozen employees, including the former director of the oil royalty program, took meals, ski trips, sports tickets and golf outings from industry

representatives. The report alleges that the former director, Gregory W. Smith, also netted more than \$30,000 from improper outside work.

The report from Inspector General Earl E. Devaney contains fresh allegations about the practices at the beleaguered royalty-in-kind program of Interior's Minerals Management Service, which last year collected more than \$4 billion worth of oil and natural gas from companies given contracts to tap energy on federal and Indian lands and offshore. The revelations come as Congress is set to consider opening the Arctic National Wildlife Refuge and areas off the coast of Florida for drilling.

The royalty-in-kind program, based near Denver, allows energy companies to pay the government in oil and gas, rather than cash, for the privilege of drilling on government land. It has been the subject of multiple investigations since 2006 by the Interior Department's secretary, its inspector general, the Justice Department and Congress for alleged mismanagement and conflicts of interest.

In the report released yesterday, investigators said they "discovered a culture of substance abuse and promiscuity" in which employees accepted gratuities "with prodigious frequency." The report cited one e-mail from a Shell Pipeline representative asking a woman in the royalty office to attend "tailgating festivities" at a Houston Texans football game: "You're invited . . . have you and the girls meet at my place at 6am for bubble baths and final prep. Just kidding."

Besides Shell, the energy company employees mentioned in the report worked for Chevron, Hess and Gary-Williams Energy. The social outings detailed in the report included alcohol-, cocaine- and marijuana-filled parties where certain employees of the Minerals Management Service were nicknamed the "MMS Chicks" by the energy employees. The companies paid for federal workers to attend football and baseball games, PGA Tour events, Colorado ski trips, paintball outings and "treasure hunts," investigators found.

Democrats who have opposed expanded drilling seized on the report as fodder for the debate. "This all shows the oil industry holds shocking sway over the administration and even key federal employees," said Sen. Bill Nelson (D-Fla.), who supports more exploration offshore but not in Alaska. "This is why we must not allow Big Oil's agenda to be jammed through Congress."

The current director of the Minerals Management Service, Randall B. Luthi, said that he takes the report "very seriously" and added that the small number of people implicated "does not represent a culture" in an agency of about 1,700 employees. The royalty-in-kind program, where the lapses cited in the report occurred, has about 50 employees.

Many employees identified in the report told investigators that they didn't think ethics rules applied to them because of their "unique" role in the agency and that they needed to socialize with industry representatives for "market intelligence," according to the report. Those employees, some of whom have been transferred to different offices, have been recommended for internal administrative action.

The inspector general's release comprised three separate reports, including one devoted to the program's former director, Smith, 56, who resigned last year. It alleges that Smith improperly worked part time for Geomatrix Consultants, an Oakland, Calif.-based environmental and engineering firm, and marketed the company to government clients.

Additionally, the report said, Smith had an inappropriate sexual relationship with a subordinate whom he paid to buy cocaine, allegedly promising her a \$250 bonus in return. The report stated that Smith admitted to the sexual encounter.

Smith, who now works for a private oil company in Denver, did not respond to requests for comment. His lawyer, Stephen Peters, said that he has not read the report but that the allegations about drug use and sexual liaisons "sound very much embellished and fabricated. . . . Greg Smith was a very loyal and dedicated employee" who increased revenue under his watch.

Investigators referred their findings to federal prosecutors, who did not charge Smith with any criminal wrongdoing and declined to comment on their decision.

Justice officials also declined to comment on their decision not to pursue a criminal case against the highest-ranking official named in the report, Lucy Querques Denett, former associate director of the Minerals Management

Service, who worked in Washington. She is accused of improperly arranging a million-dollar deal for two retired employees.

Denett, 55, the wife of Paul A. Denett, the procurement policy administrator for the White House Office of Management and Budget, retired from government service Jan. 31. She declined to comment on the report. She told investigators she had a "personal issue." People familiar with the investigation said health problems were a factor in the decision not to prosecute her.

The Justice Department's decision not to charge Denett or Smith created a rift with Interior officials, according to sources with knowledge of the dispute.

One of the two retired employees, Jimmy W. Mayberry, pleaded guilty in July to a federal conflict-of-interest charge related to the investigation. Another employee, Milton K. Dial, has been under investigation for similar conflict-of-interest allegations, according to two sources with knowledge of the matter.

According to the report, Mayberry discussed with Denett how he could be "brought back to work" for the agency after his retirement in January 2003.

Before he left, Mayberry created a job for himself by writing the job description and the criteria for selecting the winning bidder, court documents show. He started a company out of his Texas home and was awarded a \$150,000 contract in June 2003. He later hired Dial, the report said. Mayberry's firm collected \$788,000 worth of contracts. Mayberry and Dial did not return phone calls seeking comment. Mayberry's attorney, Danny C. Onorato, also declined to comment.

The royalty-in-kind program, which started as a small pilot project a decade ago, has been touted as a way to simplify the way oil and gas companies pay for the right to drill on federal land and offshore. Instead of calculating the profit from a well, they can simply give the government one-eighth to one-sixth of whatever they take from the ground.

Revenue rose quickly, from \$1.5 billion in 2004 to \$4.3 billion last fiscal year. But the growth occurred "in an environment with relatively unstructured in-house oversight," the congressionally convened Royalty Policy Committee said in a December report. Previous reports have said that companies were allowed to revise their million-dollar bids for projects indiscriminately, that government workers routinely failed to seek out legal advice on complicated deals and that the agency used outdated computers and a \$150 million software program that resulted in royalty money going uncollected.

Lee Ellen Helfrich, a lawyer who represented states and tribes entitled to a cut of the royalties, said it was nearly impossible to get accurate numbers from the agency. "They kept hemming and hawing," she said.

In late 2006 questions arose over its handling of leases written in 1998 and 1999 that allowed major oil companies drilling in the Gulf of Mexico to avoid billions of dollars in royalty payments.

Former Interior Department auditors accused the agency of failing to bill companies. "We weren't allowed to audit them. It was kind of disturbing," said Bobby L. Maxwell, an auditor who sued the federal government for not collecting royalties. "You couldn't really see what was going on."

Yesterday, Luthi, the minerals agency director, said in a news conference that the harm done by the royalty employees was to "public trust," adding, "I do not believe Americans have lost financially" as a result of the alleged activities. However, in a later interview he acknowledged that "it is too early to tell" whether financial considerations were given to firms that gave favors to federal employees, and he said the contracts will be audited.

House Dems expand coastal drilling plan

E&E, September 11, 2008; <http://www.eenews.net/EEDaily/2008/09/11/1/>

Ben Geman

Under relentless pressure to relax offshore drilling bans, House Democrats offered new major concessions yesterday with a plan that would ease limits on oil and gas leasing in large areas of the East and West coasts.

The measure goes beyond what Democratic leaders, who have long favored current protections, were planning even earlier this week, and underscores the potency of the Republicans' pro-drilling pressure heading into the November election.

The proposal would allow drilling greater than 100 miles from the Atlantic and Pacific coasts, and within 50 to 100 miles offshore if states allow it. However, the plan would preserve a 2006 law that generally keeps drilling at least 125 miles from Florida's Gulf of Mexico shores until 2022 and would not provide states a share of the royalties if they "opt in" to outer continental shelf drilling.

The drilling provisions are part of a broad package that includes a repeal of oil industry tax breaks for major companies, new renewable energy mandates and investments, a new fund to speed deployment of carbon control technology (see related story), and many other measures.

Democratic leaders say the bill could be on the floor late this week or early next week. Several members yesterday evening said they believed next week is more likely, especially as Gulf Coast members head home due to the approach of Hurricane Ike.

Backtracking on offshore drilling

As recently as Tuesday, Democratic leaders said the offshore drilling parts of their energy plan would focus on four Southeastern states -- Virginia, North and South Carolina, and Georgia -- and potentially the eastern Gulf of Mexico.

The measure comes as Democrats are embroiled in a fight with Republicans over whether to continue coastal leasing bans that are renewed each year through the federal spending process. A catch-all budget bill to continue federal spending beyond the Sept. 30 end of the fiscal year is expected, and Republicans say they will push for a continuing resolution without the leasing bans.

"What we made people focus on was an understanding that we want to have a responsible drilling program, and in order to do that we have to shape the way we do drilling," said Rep. Chris Van Hollen (D-Md.), chairman of the Democratic Congressional Campaign Committee. Van Hollen, who cautioned that the bill remains under discussion, also said the measure would "call the Republicans bluff" on drilling.

GOP leaders slammed the proposal. "In an attempt to provide themselves political cover, Democrats are going to pretend to 'open up' a large portion of the outer continental shelf for energy exploration -- but without giving states any of the revenue for the oil and gas off their coasts," said Minority Leader John Boehner (R-Ohio). "With no financial incentive, no state will choose to 'opt-in,' and this bill will result in little or no new American energy production."

Chris Tucker, an aide to Minority Whip Roy Blunt (R-Mo.), attacked the renewable electricity standard in the bill, which requires utilities to supply escalating amounts of power from renewable sources, saying it would increase electricity costs. Supporters of a federal renewable mandate dispute this.

"With every step closer they take toward a legitimate, supply-oriented bill, they can't resist pairing it with two giant steps back," Tucker said, citing tax provisions as well.

The bill drew praise from Rep. Gene Green (D-Texas), one of the so-called oil patch Democrats who favors expanded coastal drilling. "I am just happy as a Democrat that we can have a bill that is comprehensive, that has conservation and renewable investment, but where we can say for the foreseeable future we have to have oil and gas and we have to drill for it," he said.

It remains unclear if the bill will create problems for liberal members of the caucus. Parks Subcommittee Chairman Raúl Grijalva (D-Ariz.) said he was "very uncomfortable" with the measure but cautioned he was just beginning to review the plan.

But Rep. John Larson (D-Conn.) called attention to the various provisions on renewable energy, ending royalty waivers and other elements in calling it a "very comprehensive bill."

"[House Speaker] Nancy Pelosi is probably the best unifier and a person who is most able to bring a caucus together since Sam Rayburn," he said. House Oversight and Government Reform Chairman Henry Waxman (D-Calif.) said in a short interview that he would support the measure.

"I think overall the package is a good one because it is more than just drilling. It has efforts to put money into renewable fuels and alternatives," he said. With respect to the state offshore drilling "opt in," Waxman does not believe California officials would seek new oil exploration off that state's coast.

"I think many states will be unwilling to do it if they feel it is environmentally a problem, and other states may allow it and that is their prerogative," Waxman said.

Renewable tax credits, oil royalties, public transportation and more

The bill includes many measures that have previously been before the House. Some of the recycled provisions have passed, others have been rejected. Still other provisions have not been before the chamber.

The bill includes:

A renewable electricity standard of 15 percent by 2020, a quarter of which can be met with efficiency measures. This was part of a broad energy bill the House approved last year, but it stalled in the Senate and was left off the final energy bill approved by Congress and signed into law late last year.

Provisions to ensure payment of royalties on 1998-1999 deepwater Gulf of Mexico leases that currently allow royalty waivers regardless of energy prices. The House has previously passed a plan that bars companies with these leases from future gulf lease sales, unless they agree to price-based limits on the incentives or pay other fees.

Repeal of the Section 199 tax deduction for the five largest integrated oil companies. This has passed the House repeatedly but stalled in the Senate.

Sale of 70 million barrels of light crude from the Strategic Petroleum Reserve and eventual replacement with heavier grades. This measure faltered on the House floor in July when it was brought up under suspension of the rules, which requires a two-thirds vote (E&ENews PM, July 24).

Extension of renewable energy tax incentives that are currently set to expire at the end of the year. It also extends tax incentives for energy-efficient homes and buildings.

Provisions that pressure oil companies to produce on their currently held leases and accelerate leasing in the National Petroleum Reserve-Alaska, a plan that failed when it was brought up under expedited rules in July (E&ENews PM, July 17).

The Saving Energy Through Public Transportation Act, H.R. 6052, which overwhelmingly passed the House in June. It authorizes \$1.7 billion in funding over two years for public transit systems to expand services and reduce fares.

Bipartisan legislation sponsored by Rep Rick Boucher (D-Va.) to speed deployment of carbon capture and storage technologies (see related story).

A plan sponsored by House Democratic Caucus Chairman Rahm Emanuel (D-Ill.) to expand use of natural gas-powered vehicles.

Oil speculation left off, may move separately

The outlines of the bill that Democratic leaders circulated yesterday does not include provisions to toughen Commodity Futures Trading Commission oversight of oil futures markets.

Van Hollen said there will be an effort to move a separate measure dealing with speculation in oil markets before adjourning. A measure approved by the Agriculture Committee fell short before the August recess when brought up under suspension of the rules.

"We will have another vote on the speculation piece. There will be another opportunity," he said.

Rep. Bart Stupak (D-Mich.), who also favors tougher limits on speculation by hedge funds, pension funds and other institutional investors, said he would seek a vote on a stand-alone bill or an addition to the energy package addressing the issue.

Environmental reaction

Environmental groups, for their part, favor renewable energy measures but strongly oppose new offshore drilling. However, they also want to avoid the even more sweeping drilling plans that GOP leaders are pushing, including their bid to prevent continuation of the decades-old restrictions through the federal spending process.

Athan Manuel, a lobbyist for the Sierra Club, said the most active part the group would take in the debate would be "vigorously" opposing an alternative the GOP will likely offer on the floor that would contain broader oil and gas drilling provisions.

But Glenn Hurowitz, a spokesman for Greenpeace, said the group will urge members to oppose Democratic legislation that increases drilling. "They need to back their language about creating a new clean energy economy with action, and that does not include locking us into another 50 years of fossil fuel production," he said.

Palin's Pipeline Is Years From Being a Reality

NYT, September 10, 2008; http://www.nytimes.com/2008/09/11/us/politics/11pipeline.html?_r=1&hp&oref=slogin

By SERGE F. KOVALESKI and MIKE McINTIRE

ANCHORAGE — When Gov. Sarah Palin of Alaska took center stage at the Republican convention last week, she sought to burnish her executive credentials by telling how she had engineered the deal that jump-started a long-delayed gas pipeline project.

Stretching more than 1,700 miles, it would deliver natural gas from the North Slope of Alaska to the lower 48 states and be the largest private-sector infrastructure project on the continent.

"And when that deal was struck, we began a nearly \$40 billion natural gas pipeline to help lead America to energy independence," said Ms. Palin, the Republican vice-presidential nominee. "That pipeline, when the last section is laid and its valves are opened, will lead America one step farther away from dependence on dangerous foreign powers that do not have our interests at heart."

The reality, however, is far more ambiguous than the impression Ms. Palin has left at the convention and on the campaign trail.

Certainly she proved effective in attracting developers to a project that has eluded Alaska governors for three decades. But an examination of the pipeline project also found that Ms. Palin has overstated both the progress that has been made and the certainty of success.

The pipeline exists only on paper. The first section has yet to be laid, federal approvals are years away and the pipeline will not be completed for at least a decade. In fact, although it is the centerpiece of Ms. Palin's relatively brief record as governor, the pipeline might never be built, and under a worst-case scenario, the state could lose up to \$500 million it committed to defray regulatory and other costs.

Contributing to the project's uncertainty is Ms. Palin's antagonistic relationship with the major oil companies that control Alaska's untapped gas reserves.

Ms. Palin won the governor's office in part by capitalizing on populist distaste for the political establishment's coziness with Big Oil, and her pipeline strategy was intended to blunt its power over the process. Her willingness to take on the oil companies has allowed the McCain campaign to portray her as a scourge of special interests.

Now, though, she will need the industry's cooperation if her plan is to succeed, and just this week, her office said she intended to reach out to the North Slope oil companies.

As Ms. Palin takes to the road to campaign with Mr. McCain, invoking the pipeline as a major victory, some Alaska lawmakers who initially endorsed her plan now believe it was a mistake. State Senator Bert Stedman, a Republican

who is co-chairman of the finance committee, said that in its contract with the chosen developer, TransCanada, the state bargained away too much leverage with little guarantee of success.

“There is no requirement to lift one shovel of dirt or lay down one inch of steel,” he said.

A spokesman for Ms. Palin, Bill McAllister, denied that her recent statements about the pipeline were misleading. He said they should be viewed within the context of the project’s long and frustrating history, dating back to the Carter administration.

“When the governor signed the legislation giving her administration the authority to grant the gas line license to TransCanada, Alaska came closer than it has ever been to seeing the project actually happen,” Mr. McAllister said. “There is no denying that a major milestone in the project has been reached.”

Ms. Palin’s pipeline plan has its roots in longstanding efforts to access the trillions of cubic feet of natural gas under the North Slope, where some of the world’s major oil companies, including BP, Exxon Mobil and ConocoPhillips, have exploration and development rights. Congress has prodded all parties involved to develop a plan to tap the gas since at least the 1970s, but the private sector has been unwilling to assume the huge cost of building a pipeline without considerable government tax breaks and other concessions.

Ms. Palin’s push for a pipeline is central to her view that Alaska, with its North Slope gas resources, is a key to helping the United States develop an energy policy that embraces increased domestic production of gas and oil and the development of renewable and alternative energy sources.

Her predecessor, Frank H. Murkowski, had negotiated an exclusive pipeline deal with the major oil producers that proved unpopular with lawmakers and was never acted on. In the 2006 Republican primary, Ms. Palin wielded Mr. Murkowski’s pipeline proposal against him, calling it a sweetheart deal for Big Oil, which treated Alaska like a colony and faced little resistance from past governors.

Once elected, Ms. Palin set about fashioning an alternative that was essentially a 180-degree turn, intended to open up the bidding process to other companies. It also did away with incentives that a consultant for the Legislature estimated would have saved the oil companies an estimated \$10 billion over 30 to 40 years. Ms. Palin also rehired key state oil and gas officials, including Marty K. Rutherford, who had quit, and Tom Irwin, who had been fired, after opposing Mr. Murkowski’s approach.

Mr. Irwin said Ms. Palin wanted to create an environment for a larger number of companies in the energy industry to openly compete to build the pipeline, rather than just handing a favorable deal to the North Slope oil producers. Ms. Palin’s objectives were enshrined in the Alaska Gasline Inducement Act, introduced just months into her governorship.

“We were going nowhere; the producers were holding us hostage,” said Ms. Rutherford, who heads Ms. Palin’s gas pipeline team. “They were demanding great value from the state with no guarantee to do anything for us.”

While Ms. Palin’s legislation did away with the concessions to the oil companies that she considered to be excessive, it committed the state to paying the winning bidder up to \$500 million in matching money to offset costs of obtaining regulatory approvals and other expenses. Ms. Rutherford, whose team recommended the subsidy, said the governor was reluctant but eventually agreed that the state had to share in the risk to that degree; the \$500 million amounts to about 10 percent of the projected state budget surplus this year.

The bill sailed through the Legislature in May 2007. Only a single lawmaker, the House majority leader, Ralph Samuels, a Republican, voted against it. When the state solicited proposals from interested companies, it soon became apparent that the big oil companies would not participate. One of them, ConocoPhillips, submitted a proposal outside the process, but it was swiftly rejected by the Palin administration.

Of the five companies that eventually bid, Ms. Palin’s administration chose TransCanada Pipelines, which operates 36,500 miles of pipeline across North America. TransCanada had previously tried to negotiate a pipeline deal with the Murkowski administration, but was sidelined by the governor in favor of the big oil companies, some officials who were involved in the talks said. That contributed to the rift that led to the departures of Mr. Irwin, Ms. Rutherford and five others from the state Department of Natural Resources.

The proposal that TransCanada negotiated with the Murkowski administration was structured differently from the current one and had no provision for a \$500 million state subsidy, said two people who reviewed it and who spoke on condition of anonymity because the proposal remains confidential.

Of the Palin aides familiar with TransCanada from those earlier negotiations, Ms. Rutherford had an unusually close connection. For 10 months in 2003, she was a partner in a consulting and lobbying firm whose clients included Foothills Pipe Lines Ltd., a subsidiary of TransCanada.

Ms. Rutherford said in an interview that after TransCanada submitted its pipeline proposal to the Palin administration, she and the governor never discussed whether her role on the team might be viewed as improper or give the appearance of a conflict of interest.

Ms. Rutherford, who said she had not lobbied for Foothills but had done research and analysis, stated that she was not one of the pipeline team members who recommended a developer to Ms. Palin. That was done by Mr. Irwin and Patrick S. Galvin, the commissioner of the Department of Revenue, she said.

"At the end of the day, I was not a decider," said Ms. Rutherford, who acknowledged reading the proposals and discussing them with others on the team.

Mr. McAllister, the spokesman for Ms. Palin, said that Ms. Rutherford was not in a position to gain anything from her past association with TransCanada and that her role posed no conflict.

When the Legislature ratified the choice of TransCanada this summer, Ms. Palin called a news conference to hail the deal, saying that the state had finally obtained a commitment to build the pipeline. But after some of her aides offered a more restrained assessment, she dialed back her exuberance, saying, "We're not turning dirt yet."

Under the most optimistic circumstances, dirt is not expected to be turned for years. TransCanada's plan calls for it to file an application with the Federal Energy Regulatory Commission by the end of 2011, and to have the pipeline operational by late 2018. The company is not obligated to proceed with the project even if it clears all the financial and regulatory hurdles.

In assessing the state of the project, Mr. Galvin, the state revenue commissioner, avoided the characterization that Ms. Palin employed in her convention speech. A number of important decisions remain in the relationship between the state and TransCanada, he said, including whether the state will ultimately endorse the company's application to the federal government.

"We've started to build the framework for this project to move forward," he said.

The state's commitment to match some start-up expenses, up to \$500 million, is among several aspects of the deal that have prompted some legislators to second-guess their initial support.

Lyda Green, a Republican and president of the State Senate, voted for Ms. Palin's Alaska Gasline Inducement Act but said that in the interim, it has not "shown itself to be open and competitive, and it is a very expensive risk."

"I regret the vote now," she said last week.

Mr. Stedman, the Senate finance committee co-chairman, said he now believes that the Legislature was overly eager to support a new governor and see a pipeline project move forward. He contended that Ms. Palin's bill seemed intentionally written to keep the three major Alaska oil producers from submitting proposals. Demonizing Big Oil, he added, could come back to haunt the state.

"It's a sad state of affairs, but it's true: if you look at the politics of the state and you want to have a devil, you can point at Exxon, as well as at BP and Conoco," Mr. Stedman said. "It is good politics."

Beyond the \$500 million subsidy, a central criticism of the deal is that for it to succeed, TransCanada needs to secure shipping commitments from the oil companies, which control most of the North Slope gas resources. Those pledges are far from certain.

State officials have pointed out that they have the authority to revoke the oil and gas leases if the companies act unreasonably by refusing to extract the gas from the ground. Indeed, last month the state sought to pull 44 of

Exxon's leases at Point Thomson, arguing that the company had not moved on any of its nearly two dozen plans submitted over the years to develop the area, and that the last well Exxon drilled there was in the early 1980s, Mr. Irwin said.

Tony Palmer, vice president in charge of Alaska operations for TransCanada, said he was confident that shipping arrangements could be worked out with the North Slope companies, saying TransCanada had long had other agreements with them. He praised Ms. Palin for providing "impressive leadership to move this project forward," and said TransCanada had already begun preliminary fieldwork.

Meanwhile, the oil companies seem to be charting a course of their own. A month before Ms. Palin announced the selection of TransCanada, BP and ConocoPhillips unveiled a partnership to construct their own pipeline, and started the process of seeking federal certification.

Publicly, Ms. Palin welcomed the producers' involvement, calling it a validation of her overall effort to galvanize interest in a pipeline. But it is unclear whether the oil companies are seriously pursuing it or are simply trying to throw a wrench into the TransCanada plan.

Bud Fackrell, the president of the BP-Conoco venture, called Denali-The Alaska Gas Pipeline, said the companies were committed to spending about \$600 million to line up customers.

"This not a bluff," he said. "Six hundred million dollars is not chump change."

Mr. Fackrell raised one of the critical issues for the North Slope producers: taxes. He said that for Denali to attract customers, they "need to know what the tax regime is going to be or they will be hesitant to sign up" for 25-year shipping commitments. They are asking the state for "fiscal certainty," Mr. Fackrell added.

Mr. Fackrell contended that among the virtues of the joint venture was BP and Conoco's more than 30 years of experience on the North Slope, building the infrastructure and operating most of the facilities there.

He left open the possibility that TransCanada could become part of the venture.

Democrats offer new offshore drilling plan

Associated Press, September 10, 2008;

<http://ap.google.com/article/ALeqM5gB6bi0EyTozdEPy0KGisTQNaS2PQD9346A381>

By H. JOSEF HEBERT

WASHINGTON (AP) — House Democrats offered a broader drilling proposal Wednesday that would allow offshore energy development beyond 50 miles from the coast if a state gives the go-ahead and opens all federal waters 100 miles from land.

The drilling measure is part of a broader energy package expected to come up for a vote next week that also would roll back tax breaks for the largest oil companies and require them to pay additional royalties with the money to be used to spur renewable energy programs and conservation.

Federal waters within 50 miles of shore would continue to be protected from drilling. Waters off Florida's Gulf coast also would remain protected at least until 2022 under the plan.

But the proposal, announced by Speaker Nancy Pelosi's office, would essentially end the long-standing federal ban on oil and gas drilling that has barred oil companies from more than 80 percent of Outer Continental Shelf waters from New England to Washington state.

Congressional Republicans for weeks have demanded a vote on allowing access to more of the country's offshore oil and gas resources, an issue that also has become the core of GOP presidential nominee John McCain's response to high gasoline prices.

But Republicans have strongly opposed new taxes on the oil companies as well as another of the Democrats' demands: that utilities nationwide be required to use at least 15 percent of their electricity from renewable sources such as wind and solar.

Both provisions are key to the Democrats' energy legislation.

House Republican leader John Boehner, R-Ohio, said the Democrats' drilling proposal would still leave vast areas of federal coastal waters — believed to have 18 billion barrels of oil and large natural gas resources — off-limits.

"They're trying to pull a hoax on the American people," Boehner told reporters Wednesday. He said the Democrats' plan didn't appear to include any sharing of royalties with states and with no financial incentives states would likely not participate, resulting "in little or no new American energy production."

The Senate, meanwhile, is expected next week to take up several drilling proposals including one that would open waters off the Atlantic from Virginia to Georgia and the eastern Gulf off Florida to drilling but keep the bans in place elsewhere. That plan also would allow for a 50-mile coastal buffer.

Concession Surfaces on Drilling

CQ Today, September 10, 2008;

<http://www.cq.com/document/display.do;jsessionid=625D2766BCEBA0A368AE56F6B46F7725.manono?matchId=64837304>

By Coral Davenport

House Democratic leaders unveiled an energy package Wednesday that would authorize coastal states to permit oil and gas drilling 50 miles offshore, in a major concession designed to prevent defections by moderate members of the caucus.

Key lawmakers also said the spending resolution to keep the government operating into the new fiscal year, which begins Oct. 1, will not include a moratorium on expanded drilling. It would be the first time since 1982 that the statutory ban has not been included in appropriations legislation.

The energy legislation, which leaders hope to bring to the House floor next week, is a significant shift in direction by House Speaker Nancy Pelosi, D-Calif., and other Democratic leaders, who spent weeks resisting Republican calls for a broad expansion of offshore drilling. Democratic leaders initially hoped to restrict the new areas open to drilling to Virginia, the Carolinas, Georgia and a section of the eastern Gulf of Mexico. But with Republicans turning the issue to their political advantage, moderate Democrats, including those from oil-producing states, sought a less restrictive expansion of offshore drilling.

With the federal government facing a potential shutdown Oct. 1 unless Congress passes a continuing resolution to extend spending, drilling advocates had leverage over the House leaders. If moderate Democrats joined Republicans in voting against a spending resolution that included the drilling moratorium, Pelosi and the Democrats faced the prospects of a major political defeat just weeks before congressional elections.

California Democrats, traditionally the most ardent opponents of offshore drilling, sounded resigned to the proposal, in part because they doubt their state would ever choose to allow drilling off its beaches. For California to make a change in its law, a vote by referendum would be necessary.

"The opt-in language is critical because it sets a high standard," said Rep. Anna G. Eshoo, D-Calif. "The legislature and the people will have to be engaged in making the decision. The environment is the deepest and broadest value in my district."

Eshoo, a member of Pelosi's inner circle whose district is south of San Francisco, said the end of the federal moratorium might be the price that has to be paid to get a broad-based, forward-looking energy bill. "People are demanding changes for the long term," she said. "We must shape a policy to get to all available energy sources, so it needs to be a broad package."

Rep. Mike Thompson, D-Calif., whose coastal district extends hundreds of miles from north of San Francisco to the Oregon border, said allowing the moratorium to expire Oct. 30 is acceptable "if we can do an opt-in."

He said it's clear the moratorium is coming to an end. "There are not the favorable votes to keep the moratorium," he said.

Republicans could barely contain their gloating.

"I think that's great news," said Rep. Virginia Foxx, R-N.C., who was part of an unusual August protest staged by House Republicans demanding that Democrats return to Washington for a drilling vote. "We feel vindicated for what we did in August. I think it shows that what we did had an effect."

She said the Democratic concession reflects recent Republican gains in the polls. "I think they're getting desperate," she said.

However, Republicans criticized the draft legislation for leaving out language allowing coastal states to share the revenue from royalties paid by oil companies to drill off their shores.

"In an attempt to provide themselves political cover, Democrats are going to pretend to 'open up' a large portion of the outer continental shelf for energy exploration — but without giving states any of the revenue for the oil and gas off their coasts," said Minority Leader John A. Boehner, R-Ohio. "With no financial incentive, no state will choose to 'opt in,' and this bill will result in little or no new American energy production."

The bill also is packed with provisions to appease the party's environmental base. It would roll back an estimated \$7 billion in tax breaks to the oil industry and force oil companies to pay an estimated \$10 billion in back royalties for leasing on federal land.

It would require 15 percent of the nation's electricity to be produced by renewable sources such as wind and solar, and boost energy efficiency standards for buildings. Still, environmentalists expressed disappointment about the prospects of expanded offshore drilling.

"What's happening right now is politics at its worst," said Karen Wayland, legislative director for the Natural Resources Defense Council. "This is a huge push by the big oil companies in the waning months of the Bush administration."

She added, "This is about politics, not necessarily about policy."

Problems Expected in Senate

Many lawmakers agree on that last point: Even if the measure passes the House, it's unlikely in the waning weeks of the congressional session to pass the Senate. That chamber is expected to take up its own contentious energy package next week, and must also move a spending bill before an October recess. Many Democrats said they view passage of the bill chiefly as a political exercise to silence Republicans and provide Democrats with cover.

"This is a political month," said Rep. John P. Murtha, D-Pa. "There's all kinds of things we try to do that will just go away after we leave."

Democratic leaders have not yet outlined their timing and strategy of bringing the bill to the floor for a vote. They had hoped to bring the bill to the floor Friday, but Hurricane Ike's approach to the Texas coast means some House members from that state are heading home Thursday. Democrats have said they will bring the bill up under regular rule, which requires a simple majority to pass. They have not said whether they will allow Republicans to offer their own, even stronger drilling bill (HR 6566) as an amendment.

Despite the remaining uncertainty, Democratic supporters of expanded drilling say the bill sends a politically potent message and helps defuse a political issue.

"I would like the Democratic majority House to be on record supporting drilling," said Texas Democrat Rep. Gene Green, who is part of a caucus of oil-state Democrats who have favored drilling. "We could be laying down the predicate for the next year and the next administration."

Gulf state Republicans attack taxes in 'Gang of 10' plan

E&E, September 10, 2008; <http://www.eenews.net/eenewspm/2008/09/10/2/>

Ben Geman

Seven Republicans from states along the Gulf of Mexico are pressing sponsors of a bipartisan Senate energy package to scuttle provisions that impose new taxes on oil and gas production in the gulf.

Drafts of a plan by the "Gang of 10" -- which has since grown in size -- include a new severance tax on gulf production. It is among the provisions that raise revenue in order to increase funding for renewable energy.

Gulf producers would get a credit against the tax for royalties paid on gulf production. As a result, the tax is largely aimed at late 1990s deepwater gulf leases that allow royalty waivers regardless of energy prices, due to the absence of price-based limits on the royalty incentive.

But the Gulf Coast Republicans called the provision harmful in a letter to the plan's sponsors today.

"A severance tax that singles out production in the gulf is not only arbitrary, but it will discourage production where some of the largest discoveries of oil and gas are known to exist. Reducing production while increasing taxes will limit potential supply and raise energy prices," the letter states.

The letter was signed by GOP Sens. Kay Bailey Hutchison and John Cornyn of Texas, Thad Cochran and Roger Wicker of Mississippi, Richard Shelby and Jeff Sessions of Alabama, and David Vitter of Louisiana.

The authors of the letter also say the provision would harm the Gulf Coast states because they stand to share in revenues from production as a result of 2006 legislation that expanded gulf leasing.

Senate Majority Leader Harry Reid (D-Nev.) plans to bring up several energy plans for a vote next week, including the Gang of 10's plan. The plan blends expanded offshore drilling in some areas with repeal of oil industry tax breaks and new investments in alternative energy and conservation.

Adam Sharp, a spokesman for Sen. Mary Landrieu (D-La.), one of the backers of the bipartisan plan, said the letter is incorrect in suggesting that the plan would affect revenue sharing, citing strong industry interest in gulf production. He noted that Bush administration increases in gulf royalty rates have not lessened the industry's push for more production there, adding that higher royalties therefore increase the amount of money for gulf states.

He also defended the effort to ensure payment from the late 1990s leases. "I think most Americans would agree if you are going to drill a public resource you should have to pay something for that. You should not get these public resources for free and then turn a profit on it," Sharp said.

Sex, Drug Use and Graft Cited in Interior Department

NYT, September 10, 2008;

http://www.nytimes.com/2008/09/11/washington/11royalty.html?_r=1&ref=business&oref=slogin

By CHARLIE SAVAGE

WASHINGTON — As Congress prepares to debate expansion of drilling in taxpayer-owned coastal waters, the Interior Department agency that collects oil and gas royalties has been caught up in a wide-ranging ethics scandal — including allegations of financial self-dealing, accepting gifts from energy companies, cocaine use and sexual misconduct.

In three reports delivered to Congress on Wednesday, the department's inspector general, Earl E. Devaney, found wrongdoing by a dozen current and former employees of the Minerals Management Service, which collects about \$10 billion in royalties annually and is one of the government's largest sources of revenue other than taxes.

"A culture of ethical failure" pervades the agency, Mr. Devaney wrote in a cover memo.

The reports portray a dysfunctional organization that has been riddled with conflicts of interest, unprofessional behavior and a free-for-all atmosphere for much of the Bush administration's watch.

The highest-ranking official criticized in the reports is Lucy Q. Denett, the former associate director of minerals revenue management, who retired earlier this year as the inquiry was progressing.

The investigations are the latest installment in a series of scathing inquiries into the program's management and competence in recent years. While previous reports have focused on problems the agency had in collecting millions of dollars owed to the Treasury, and hinted at personal misconduct, the new reports go far beyond any previous study in revealing serious concerns with the integrity and behavior of the agency's officials.

In one of the new reports, investigators concluded that Ms. Denett worked with two aides to steer a lucrative consulting contract to one of the aides after he retired, violating competitive procurement rules.

Two other reports focus on "a culture of substance abuse and promiscuity" in the service's royalty-in-kind program. That part of the agency collects about \$4 billion a year in oil and gas rather than cash royalties.

Based in suburban Denver and modeled to operate like a private sector energy company, the decade-old royalty-in-kind program sells oil and gas on the open market. Its employees are subject to government ethics rules, such as restrictions on taking gifts from people and companies with whom they conduct official business.

One of the reports says that the officials viewed themselves as exempt from those limits, indulging themselves in the expense-account-fueled world of oil and gas executives.

The reports provoked immediate outrage in Congress. Senator Ron Wyden, an Oregon Democrat who is chairman of the Public Lands and Forests Subcommittee, accused the Minerals Management Service on the Senate floor Wednesday of "a pattern of abuses and mismanagement" that is costing taxpayers billions.

And Senator Bill Nelson, Democrat of Florida, suggested that Congress should not lift its ban on offshore drilling — a hot-button issue in his state — because of the problems identified.

The report says that eight officials in the royalty program accepted gifts from energy companies whose value exceeded limits set by ethics rules — including golf, ski and paintball outings; meals and drinks; and tickets to a Toby Keith concert, a Houston Texans football game and a Colorado Rockies baseball game.

The investigation also concluded that several of the officials "frequently consumed alcohol at industry functions, had used cocaine and marijuana, and had sexual relationships with oil and gas company representatives."

The investigation separately found that the program's manager mixed official and personal business. In sometimes lurid detail, the report also accuses him of having intimate relations with two subordinates, one of whom regularly sold him cocaine.

The culture of the organization "appeared to be devoid of both the ethical standards and internal controls sufficient to protect the integrity of this vital revenue-producing program," one report said.

The director of the Minerals Management Service, Randall Luthi, said in a conference call with reporters that the officials implicated in the reports had violated the public's trust.

"When you come to work for the federal government, the American people expect the best of you," he said, adding, "I am not going to leave this post in January without addressing this problem." Mr. Luthi, who became the service director in July 2007, said that the agency had requested the investigation after receiving whistle-blower complaints in the spring of 2006, and that it had already made several changes. A spokesman for Mr. Devaney declined to comment.

A former official named in the report, Jimmy W. Mayberry, pleaded guilty to a felony conflict-of-interest charge in August and faces up to five years in prison and a \$250,000 fine.

In late 2002, when he was about to retire, Mr. Mayberry drafted a "statement of work" for a consulting contract to perform essentially identical functions to his own. He then retired, started a company, and in June 2003 won the contract with the help of Ms. Denett and Milton Dial, another friend at the agency.

Danny Onorato, the lawyer representing Mr. Mayberry, said his client had a sentencing date in November, but added that "we are not interested in having Mr. Mayberry speak."

The inspector general also urged the administration to take action against several of the officials in the royalty-in-kind program who accepted gifts from the oil companies, by firing them or banning them for life from certain

positions. Several have already been transferred out of the program but remain on the government payroll, the report said.

But two of the highest-ranking officials who were subjects of the investigations will apparently escape penalty. Both retired during the investigation, rendering them safe from any administrative punishment, and the Justice Department has declined to prosecute them on the charges suggested by the inspector general.

One of them is Ms. Denett, who oversaw the Denver-based royalty-in-kind program from Washington. The report contends that she manipulated the contracting process to steer the consulting work to Mr. Mayberry, her friend and former special assistant.

Six other companies submitted bids for the contract, spending more than \$90,000 on their proposals. The report said an Interior Department procurement lawyer described the arrangement as one in which “the fix is in throughout — this is tainted from the beginning, that is totally improper.”

Ms. Denett did not return a message left at her home on Wednesday with her husband, Paul A. Denett, who was the top procurement official in the White House Office of Management and Budget until he resigned this month. He declined to comment.

But the report quotes Ms. Denett repeatedly telling investigators that in retrospect she had made a “very poor” decision. She also told them that “she had been preoccupied with a very stressful personal issue at the time,” which the report did not describe.

The other high-ranking official the Justice Department has declined to prosecute is Gregory W. Smith, the former program director of the royalty-in-kind program. Mr. Smith worked in Colorado and reported to Ms. Denett. He retired in 2007.

The report said that Mr. Smith improperly used his position with the royalty program to get an outside consulting job helping a technical services firm seek deals with oil and gas companies with which he was also conducting official business.

The report accused Mr. Smith of improperly accepting gifts from the oil and gas industry, of engaging in sex with two subordinates and of using cocaine that he purchased from his secretary or her boyfriend several times a year between 2002 and 2005. He sometimes asked for the drugs and received them in his office during work hours, the report said.

The report also said that Mr. Smith lied to investigators about these and other incidents, and that he urged the two women subordinates to mislead the investigators as well.

In discussions with investigators, the report said, Mr. Smith acknowledged buying cocaine from his secretary and having a sexual encounter with her at her home, but he denied discussing drugs at work. He also denied telling anyone to lie, saying that he only told people that “no one has a right to know what I do on my personal time.”

The report omits any response from Mr. Smith about allegations of sexual misconduct with another female subordinate.

Mr. Smith on Wednesday referred questions to his lawyer, Steve Peters, who said he had not yet seen the report. But he lauded Mr. Smith’s work with the royalty-in-kind program.

“Greg Smith was a loyal, dedicated employee of the federal government for more than 28 years, and notwithstanding the unfair and in many respects inaccurate allegations in today’s report, Greg is very proud of what he accomplished — and he should be,” Mr. Peters said. A Justice Department spokeswoman, Laura Sweeney, declined to explain why prosecutors chose not to bring charges against Ms. Denett or Mr. Smith, citing departmental policy.

The report also detailed cozy relationships between energy companies and other officials in the royalty-in-kind program office. Some 19 officials — a third of the staff — took gifts from oil and gas executives, some with “prodigious frequency,” it said.

On one occasion in 2002, the report said, two of the officials who marketed taxpayers' oil got so drunk at a daytime golfing event sponsored by Shell that they could not drive to their hotels and were put up in Shell-provided lodging. Two female employees "engaged in brief sexual relationships with industry contacts," the reports' cover memo said, adding that "sexual relationships with prohibited sources cannot, by definition, be arms' length."

On one occasion, the report said, the royalty-in-kind program allowed a Chevron representative who had won a bid to purchase some of the government's oil to pay taxpayers a lower amount than his winning offer because he said he had made a mistake in his calculations. A report from Mr. Devaney's office earlier this year found that the program had frequently allowed companies that purchased the oil and gas to revise their bids downward after they won contracts. It documented 118 such occasions that cost taxpayers about \$4.4 million in all.

On another occasion, the new report said, one of the officials shared information about the confidential price a pipeline company was charging the government.

The report said that the officials told investigators that the gifts and socializing did not affect how they treated the companies in their official duties.

They also said they did not view socializing with oil company representatives and taking gifts as inappropriate because they said they needed to be part of the marketing culture in order to market the program's oil and gas. Several of the lower-ranking program officials have been transferred out of their old jobs, the report said. It recommended stronger supervision and a series of changes to make clearer the limits of acceptable behavior, some of which Mr. Luthi said have already been implemented.

Gang of 16 gets flak on offshore issue

Politico, September 10, 2008; <http://www.politico.com/news/stories/0908/13301.html>

By: Erika Lovley

The self-described Gang of 16 senators, gaining traction with a bipartisan approach to offshore drilling, is drawing plenty of criticism from both sides of the politically volatile issue.

Seeking to forge an energy compromise that could pass Congress this year, the senators are calling for a combination of offshore drilling, renewable energy funding and repealing oil company tax credits. And the gang, which recently grew from 10 to 16 senators from both the sides of the aisle, is giving the GOP pause.

Among the new Republican additions are Sens. Norm Coleman of Minnesota and John Sununu of New Hampshire. Both are facing uphill reelections in which energy issues are a key concern.

Further infuriating some Republicans: The gang — evenly divided with eight Democrats and eight Republicans — was recently endorsed by pro-drilling lobbying group Securing America's Future Energy.

Republican demands for a vote on offshore drilling have forced House Speaker Nancy Pelosi (D-Calif.) to give the issue a public nod. And a loud constituent outcry over high gasoline prices has caused a number of Democrats to flip their positions and back offshore expansion.

"We're winning this issue, and we're where the American people want to go," said Nicklaus Simpson, a spokesman for House Minority Whip Roy Blunt (R-Mo.). "[The Democrats] know they have a problem."

Both the gang and Pelosi are introducing legislation that could be a major stumbling block for one of the Republicans' signature election issues — the call for more offshore drilling.

One of the gang's leaders, Sen. Kent Conrad (D-N.D.), and aides close to the group suggest that several more members have shown interest in joining — a growing pattern that has staunch drilling advocates on edge.

The gang's original five Republicans have been lambasted by House Policy Committee Chairman Thaddeus G. McCotter (R-Mich.) and other colleagues and scorned by conservative interest groups and talk show host Rush Limbaugh. And Rep. Ed Markey (D-Mass.) and a small handful of strong anti-drilling Democrats have opposed the plan.

Any Senate bill would need 60 votes to proceed. And most Republicans are not expected to support the gang's proposal, which would cost \$84 billion and require tax hikes. Democratic support will also be hard to rally due to the offshore drilling provisions.

But Senate Minority Leader Mitch McConnell (R-Ky.) and other high-ranking members have been reluctant to highlight any hint of a party divide.

"There's been an outcry from the right aimed at those Senate Republicans," said a Republican Senate staffer who asked not to be identified. "But Mitch McConnell isn't going to publicly attack people in his own party. That won't help anyone get a vote."

Instead, much of the most vocal opposition has come from the grass roots.

The rogue Republicans "are on their own," said Americans for Tax Reform President Grover Norquist, who is leading a coalition of 60 conservative groups, including the blog RedState, that oppose the gang. "This group hasn't become the distraction we feared it would be, but it needs to go down in history as the dumbest move ever."

"The criticism coming from the left and the right tends to be uninformed," Conrad told Politico. "It tends to come from folks who haven't read the proposal. We've found that when people examine what we've proposed, they find this to be a serious compromise."

Both presidential candidates have tiptoed around the issue. Democrat Barack Obama has offered only a few encouraging words, and Republican John McCain's camp is concerned it could complicate his campaign if he appears too bipartisan.

Both Pelosi and Senate Majority Leader Harry Reid (D-Nev.) have warned drilling supporters that a compromise is needed for floor action. But Sen. Jim DeMint (R-S.C.) and other Republicans have threatened that unless Democrats agree to lift the ban on offshore drilling, they will vote against a resolution to fund the government's 2009 fiscal year, which could spark a government shutdown.

"Republicans are admittedly opposed to doing this in a comprehensive package," said Pelosi spokesman Drew Hammill. "If it takes expanding drilling ... to allow us to move forward, then that's what it will take."

Led by Conrad and Chambliss, the gang has a lofty goal of debating and passing energy legislation during September, before Congress is scheduled to adjourn for the fall campaign.

The idea for the gang came from Chambliss, who approached Conrad in May with plans to re-create the Gang of 14 from 2005, a group that was able to resolve Democratic filibusters over President Bush's judicial nominations for the U.S. Supreme Court. Conrad and Chambliss also worked together on the Farm Bill.

Environmentalists, who have remained relatively silent on the issue, say they are hoping that Reid, as the Senate majority leader, will wield tight control over the floor and that any compromise legislation will stall.

In the House, "Pelosi is opening the door slightly, [and] that will allow us to get something bigger done," said Friends of the Earth spokesman Nick Berning. "Do we feel that we've lost in this? No way. Republicans have a history of overreaching right before an election."

Still, Republicans are heralding the spike in gas prices as the moment that made offshore drilling a kitchen table issue. But that, too, could be fading as gas prices have gradually slid back a bit.

"The winning point was not a legislative point. It was a grass-roots movement," said McConnell spokesman Don Stewart. "Senators went home over the Fourth of July and got an earful. I can only imagine what they heard over August."

Democrats Start on Energy Plan

Washington Post, September 10, 2008; <http://www.washingtonpost.com/wp-dyn/content/article/2008/09/09/AR2008090903146.html?wpisrc=newsletter>

Bill Would Permit Increased Drilling off Atlantic, Gulf Coasts

By Paul Kane

After absorbing months of criticism for inaction on the high cost of gasoline, House Democrats yesterday began assembling broad energy legislation that allows greater drilling off the Atlantic coastline and Florida's gulf shore.

Speaker Nancy Pelosi (Calif.) and her leadership team, emerging from a nearly two-hour meeting with the Democratic caucus, offered a plan that marks a policy reversal for Democrats. It would allow more offshore drilling in exchange for additional funding for renewable resources.

Pelosi said the ideas were a framework for legislation that could come to a vote by the end of the week. "It will put us on the path to make America energy-independent," she said.

The most controversial provision, which drew fire from conservatives and liberals alike, would permit drilling 100 miles off the Atlantic coasts from Virginia to Georgia, and in the Gulf of Mexico off Florida's western coast.

The limit could be reduced to 50 miles if each state's governor and legislature endorsed the move, said Democratic aides and environmental activists briefed on the plan.

For oil producers, the biggest bounty would be in Florida's gulf waters, which are protected by federal law that keeps drilling rigs 125 miles offshore. Gov. Charlie Crist (R-Fla.), following the lead of President Bush and GOP presidential nominee John McCain, has reversed his opposition to offshore drilling.

Drilling is prohibited within 200 miles of the Atlantic and Pacific coasts, a moratorium set by Congress that expires at the end of the month.

Pelosi, who spent June and July rejecting calls for more drilling, tried to split the difference between environmentalists worried about the effect of offshore drilling and conservative Democrats concerned that \$4-a-gallon gasoline prices this summer have left them vulnerable to GOP opponents in the November elections.

Republicans rejected the plan, saying the limits placed on the Atlantic and gulf coasts would seal off areas closer to shore that could produce the most oil.

"It leaves most American energy under lock and key when we should be doing everything possible to expand energy production, increase conservation and promote development of clean, renewable energy," House Minority Leader John A. Boehner said in a statement yesterday. "It would permanently lock up 80 percent of our nation's offshore energy resources -- holding hostage billions of barrels of American oil."

Some environmentalists were equally critical of the plan. "We're extremely disappointed that the House leadership is considering lifting coastal protections. It's a hoax," said Anna Aurilio, director of the D.C. office of Environment America.

After the House recessed for five weeks in early August, Republicans staged a near daily protest on the chamber floor, demanding that Pelosi call lawmakers back for action on comprehensive energy legislation.

Democrats, who hope for a vote by Friday, are selling the legislative package to liberals in their caucus as the best way to promote clean energy sources such as wind and solar power, which would receive increased funding from revocation of tax breaks for oil companies and from royalties from new drilling.

"So more drilling, no subsidies, and we want our royalties, in order to pay for investments in renewable energy resources, make a strong commitment to [a heating assistance program for the poor] and the land and conservation fund," Pelosi said.

She said Democrats also are considering a loan-guarantee program of \$25 billion to \$50 billion to encourage the auto industry to build vehicles that run on clean energy. Sen. McCain (Ariz.) and his Democratic opponent, Sen. Barack Obama (Ill.), support the program. They are competing vigorously for votes in Michigan, which relies heavily on automotive manufacturing.

Senate Democrats expect to move separate legislation next week being crafted by a bipartisan group that also would allow more offshore drilling, including in Florida's gulf. But Majority Leader Harry M. Reid (D-Nev.) indicated yesterday that he might limit debate on it to as few as three votes, a tactic that frequently has led to Republican filibusters of key legislation.

Democrats look to more drilling

Associated Press, September 10, 2008; <http://ap.google.com/article/ALeqM5imPz0z6szykAL-CAKZDEZOAiDREgD933ERNG0>

By H. JOSEF HEBERT

WASHINGTON (AP) — With public opinion shifting toward offshore drilling, Democrats are looking to defuse the volatile election issue by allowing oil companies for the first time to explore off the Atlantic and Gulf coasts from Virginia to Florida — but only if they foot the bill for new alternative energy programs.

House Speaker Nancy Pelosi, who not long ago staunchly opposed lifting any of the offshore drilling bans, said Tuesday she now supports an energy package that would include drilling in federal waters off the southeastern coast. She is planning a vote that could come as early as Friday.

"If they (the oil companies) want to drill offshore, we'll say OK," Pelosi told reporters. But she said the bill also will require oil companies to give up \$13 billion in tax breaks and agree to pay billions of dollars in back royalties that were avoided because of an Interior Department contracting error in deep-water drilling leases in the late 1990s.

The money would be used to subsidize investments in solar, wind and other renewable energy.

"If you oppose that, what are you saying. I'm for drilling and I want to subsidize Big Oil and I want all of the profits to go to Big Oil," said Pelosi.

Pelosi's proposal mirrors ones being pushed in the Senate — one by the Democratic leadership and another by a bipartisan group known as the "Gang of Ten" that calls for limited offshore drilling from Virginia to Georgia and off Florida's Gulf coast, areas that have been off limits to energy companies for decades because of environmental concerns.

The proposals would open federal waters beyond a 50-mile coastal buffer.

Senate Majority Leader Harry Reid reiterated Tuesday his intention to take up the drilling measures next week.

Republicans in both the Senate and House, meanwhile, are pushing for broader drilling.

House Republican leader John Boehner of Ohio, called Pelosi's proposal "just more of the same. ... It leaves most American energy under lock and key when we should be doing everything possible to expand energy production."

Off-limits areas of the Outer Continental Shelf on both coasts are believed to have at least 18 billion barrels of oil, but more than half of the reserve is found off the West Coast, mainly off California, according to the Interior Department. Mid-Atlantic waters, however, are believed to have large reserves of natural gas as well as some oil.

Offshore drilling has gained political momentum since GOP presidential nominee John McCain made it a central part of his energy plan. At the just-concluded GOP convention, McCain vowed to push for ending the drilling moratoria as soon as possible, prompting delegates to change, "drill, baby drill." Sensing a shift in public sentiment toward more domestic energy development, Democratic presidential nominee Barack Obama has also said he is open to limited expansion of offshore drilling.

Congressional Republicans want to lift all of the drilling bans that cover the Outer Continental Shelf waters 50 miles from shore from New England to Washington states. Oil and gas drilling has been allowed for decades in the western Gulf of Mexico where U.S. offshore energy production has concentrated.

But Republican leaders are adamantly opposed to additional taxes on oil companies. They repeatedly have blocked proposals that would rescind oil industry tax breaks, arguing that would inhibit domestic oil production.

A possible compromise worked out in the Senate by a group headed by Democratic Sen. Kent Conrad of North Dakota and Republican Sen. Saxby Chambliss of Georgia — the Gang of Ten as it is dubbed — calls for both limited offshore drilling and taxing Big Oil, while funneling billions of dollars into renewable energy.

Republican leaders have not embraced the compromise.

"It's the only (approach) that has a realistic chance of getting 60 votes," said Sen. John Thune, R-N.D., one of the "Gang of Ten", making clear that no matter that whatever the energy plan, it will need that much support to overcome a certain Senate filibuster.

Ahead: 'Whale of a Fight' Over Offshore Drilling

CQ Today, September 9, 2008;

<http://www.cq.com/document/display.do;jsessionid=B0582B90773D0A181357CEAC298C22C8.monhegan?matchId=64733258>

By Coral Davenport

House Democratic leaders are struggling to engineer energy legislation that can hold together their caucus by satisfying pro-drilling moderates without alienating liberals and environmentalists.

Leaders postponed plans to unveil their bill Tuesday afternoon, saying details would become clear after a caucus meeting Wednesday.

"There are wildly divergent views on the subject," said Jay Inslee, D-Wash., an ally of environmentalists, who said it will take intense negotiations to design a bill that will placate opposing wings of the Democratic Caucus.

The Democratic majority still hopes to bring a bill to the floor this week, in the latest attempt to respond to weeks of Republican pressure to lift a ban on oil and gas drilling off most U.S. shorelines. Drilling is now allowed only in select areas, including sections of the Gulf of Mexico and off of Alaska.

Addressing the drilling issue is essential if Congress is to adopt a continuing resolution to fund government operations when the fiscal year begins Oct. 1. Congress has renewed the drilling moratorium in appropriations bills since 1982, but Republicans in both chambers have signaled they will oppose any spending bill that would extend the ban for another year.

Democratic leaders have said the key provisions of their legislation would be language giving Virginia, Georgia and the Carolinas authority to allow drilling off their shores. The legislation would also expand renewable-energy and conservation initiatives and pay for them by rolling back tax subsidies for oil companies.

By tying the relaxation of the drilling moratorium to the repeal of industry tax breaks, Democratic leaders hope to frame the debate as a referendum on unpopular oil companies.

But Republicans show no signs of letting go of an issue that has put the majority on the defensive in recent weeks. They contend that allowing the four Southeastern states to opt out of the drilling moratorium doesn't go far enough.

"Nobody has seen their bill yet," said Minority Leader John A. Boehner, R-Ohio. "But based on descriptions, it would wall off about 80 percent of the outer continental shelf for drilling permanently. I don't think that's what anyone wants."

Boehner reiterated that Republicans would oppose any effort to extend the drilling moratorium in the continuing resolution.

"It ought to be allowed to expire," he said. "If the Democrats want to challenge us by putting the moratorium back in place, we will have a whale of a fight over it."

In addition to wrestling with what their bill will say, Democratic leaders also have not settled on their legislative strategy.

Throughout the summer, Democrats brought energy bills to the floor under an expedited procedure that bars amendments but also requires a two-thirds majority for passage. That blocked Republicans from offering their drilling amendments, but it also doomed chances for passing the legislation.

House Rules Committee Chairwoman Louise M. Slaughter, D-N.Y., said she expects the energy bill to move before her panel this time, probably Wednesday afternoon.

Majority Leader Steny H. Hoyer, D-Md., suggested at a news conference Tuesday morning that Republicans might be allowed to offer their energy bill (HR 6566) as an amendment. The GOP bill would lift the offshore drilling moratorium and promote development of nuclear, coal, oil shale and alternative energy, in what Boehner describes as an “all of the above” plan.

Pelosi has consistently refused to allow a vote on any proposal to lift the offshore drilling ban completely. Hoyer seemed to back off on his comments later Tuesday, saying the majority had not yet decided what amendments to allow.

“We have not yet fashioned the rule,” Hoyer said.

Republicans Wary About Shutdown

Boehner’s suggestion that Republicans might try to block a continuing resolution unless the moratorium is lifted is largely symbolic, given the Democratic majority — unless pro-drilling Democrats were to defect.

In the Senate, however, the slender Democratic majority means Republican cooperation is needed to pass a spending bill.

The failure to pass a spending bill before the current fiscal year ends could shut down the federal government — a politically dangerous step just weeks before congressional elections.

A Republican-controlled Congress shut down the government over a spending impasse in 1995, a move that backfired on the GOP politically and boosted the re-election prospects for the Democratic president, Bill Clinton.

While Senate Republicans also want to lift the drilling moratorium, several said they would be wary about the prospects of cutting off government funds.

“I don’t see people voting against the [continuing resolution],” said Kansas Republican Pat Roberts. “I do see opposition to putting [an extension of the drilling moratorium] on.”

Maine Republican Sen. Olympia J. Snowe said she did not expect most Republicans to favor shutting down the government over the drilling ban.

A government shutdown “should not happen,” Snowe said.

“We learned a very hard lesson with respect to the government shutdown in the fall of 1995,” she said. “It would not serve any vital public purpose.”

Offshore companies getting out of the way, again

Houston Chronicle, September 9, 2008; <http://www.chron.com/disp/story.mpl/headline/biz/5990562.html>

Brett Clanton

Though still mopping up from Gustav, oil and gas companies turned their attention today to Hurricane Ike, the second major storm in as many weeks to threaten vital Gulf Coast energy infrastructure.

Repeating the massive emergency response to Gustav, the companies were once again forced to begin evacuating workers from offshore facilities, securing refineries and making plans to keep Gulf Coast gas stations supplied with fuel.

As it aims for Texas or Louisiana, Ike could inflict harm on offshore oil and gas production facilities that were only just beginning to return to operation after being closed for Gustav. It could also force more hurricane-related shut downs of oil refineries, potentially tightening fuel supplies nationwide.

In a sign of building anxiety around that prospect, gasoline futures rose 6.42 cents to settle at \$2.75 a gallon in trading on the New York Mercantile Exchange. For gasoline slated for the Gulf Coast, prices jumped as much as 35 cents a gallon Monday.

Gasoline futures represent a wholesale cost of gasoline before taxes and other charges are added and typically suggest a direction for retail pump prices.

The double shot of hurricanes this month recalled 2005 when Hurricane Katrina nailed Louisiana in late August then Rita pounded Texas only a few weeks later. Yet the industry said it is in much better shape to deal with Gulf Coast hurricanes than it was three years ago.

"Then, we really didn't have a plan," said Dave Rabe, Chevron Corp's district sales manager in charge of Louisiana and Texas. "Now, we do."

Rabe said Chevron has warehouses in Louisiana and Alabama stocked with generators and other support materials to keep Chevron and Texaco gas stations open for business in storm-hit areas. It also is directing more fuel to the Gulf Coast and has identified high-volume retailers where fuel needs may be more severe following a storm, he said.

Chris Newton, president of the Texas Petroleum Marketers and Convenience Store Association in Austin, said his trade group started telling gas stations along key evacuation routes today to begin lining up additional fuel supplies to meet coming demand from Hurricane Ike.

Four refineries in Louisiana remained shut down today because of Gustav, including ConocoPhillips' 247,000-barrel-per-day Alliance plant in Belle Chasse and Motiva's 235,000-barrel-per-day plant in Convent.

But refiners in the projected path of Ike said they were still monitoring the storm and had no plans to close fuel-making plants at this time.

Additionally, some 80 percent of oil production and 70 percent of natural gas production in the Gulf remains shut in following Gustav, the U.S. Minerals Management Service said. The lion's share of that will not come online again until Hurricane Ike is no longer a threat.

The markets, however, continued to pay little notice. Light, sweet crude for October delivery rose 11 cents to settle at \$105.86 a barrel on the New York Mercantile Exchange, after rising as high as \$109.89 a barrel and falling as low as \$104.70. Natural gas gained 7.8 cents to settle at \$7.527 per 1,000 cubic feet.

Offshore oil producers including BP and Shell and drillers including Transocean and Rowan Companies said they had begun evacuating workers from production platforms and drilling rigs in the Gulf as Ike inched closer.

Many oil and gas companies retain contracts for helicopter service to ferry workers to shore. And it doesn't always come cheaply.

A one-way trip for the 100 workers stationed on a deepwater drilling rig can cost \$250,000, said Chip Minty, spokesman for Oklahoma City-based Devon Energy, the largest independent oil and gas producer in the Gulf. Even a one-way trip for the dozen workers on a near-shore platform can run nearly \$10,000, he said.

"Those are the kinds of things people don't realize when they're filling up," Minty said.

Ike means many hours in the sky for Bristow Group, which operates the largest fleet of helicopters serving the offshore oil and gas industry in the Gulf.

Today alone, the company ferried some 700 people back to shore, many of them in 12-to-17-seater helicopters, and expected a similar load Tuesday, said Mark Duncan, senior vice president of the western hemisphere.

"For us, it's not storm fatigue," he said. "Really, it's just part of our business."

House Dems plan vote on offshore drilling, renewables bill this week
E&E, September 9, 2008; <http://www.eenews.net/eenewspm/2008/09/09/1/>

Ben Geman and Eric Bontrager

House Democratic leaders will bring energy legislation to the floor this week that expands offshore drilling, repeals oil industry tax and royalty incentives, and seeks to boost renewable energy use, lawmakers and aides say.

Democrats outlined the bill today and said they plan to bring the measure up Thursday or Friday under rules that allow a simple majority vote, but their action also raises the prospect of a vote on a GOP alternative.

While stressing that the plan was not final, Democratic lawmakers and aides said the bill may include the following components:

Expansion of outer continental shelf (OCS) leasing to include areas in the eastern Gulf of Mexico and the coasts of the Carolinas, Virginia and Georgia. These are the same areas included in the "Gang of 10" plan in the Senate. The bipartisan Senate plan would allow drilling as close as 50 miles from the Southeastern state coasts, and the same distance from Florida in the gulf. But House lawmakers and aides did not say how close to shore their plan would allow drilling, instead saying only that it would address the same states as the Senate measure.

New revenues from oil companies. A Democratic leadership aide said the bill may include provisions to ensure payment of royalties from late-1990s deepwater Gulf of Mexico leases that currently allow royalty waivers regardless of energy prices. The absence of price-based limits on these royalty waivers could cost the Treasury as much as \$14.7 billion over 25 years, according to the Government Accountability Office. The bill may also include the repeal of the Section 199 tax deduction for major oil companies. This plan, past versions of which have also frozen the deduction at 6 percent for non-majors, raises roughly \$13.6 billion over a decade, the Joint Committee on Taxation estimated in June.

A so-called renewable electricity standard that requires utilities to supply escalating amounts of power from sources like wind and geothermal power. The House Democrats plan to include a standard of 15 percent by 2020, an aide said, akin to a measure the House approved last year that did not survive negotiations with the Senate. The plan allows roughly a fourth of the standard to be met with efficiency measures.

Extension of renewable energy and energy efficiency tax credits.

Democrats have also said the bill may include language to expand Commodity Futures Trading Commission regulation of oil markets and pressure oil companies to produce on their existing leases.

House Speaker Nancy Pelosi (D-Calif.) also said the bill could include provisions to help automakers retool to make more efficient vehicles and said this could also be part of an economic stimulus package being prepared or the continuing resolution to extend government spending beyond the Sept. 30 end of the fiscal year. The major energy bill enacted last year authorized loan and loan guarantee programs for manufacturing advanced technology vehicles.

Democrats have been under relentless pressure from GOP members to allow votes on ending OCS leasing bans, placing some members of the Democratic caucus in a difficult spot as calls to drill have increased, since polls show that voters are backing such a pro-drilling message.

The Democrats' bill faces huge obstacles and is highly unlikely to become law. The new drilling falls short of what the GOP wants. Also, provisions that raise oil industry taxes and the renewable power standard have failed to garner 60 Senate votes and have also drawn consistent White House veto threats.

But Democrats are using the bill to try and turn the tables on Republicans, who have been alleging that Democrats are blocking more domestic oil production. "It will come down to this when it comes to energy: Whose side are you on, the side of the American consumer and the taxpayer or Big Oil?" Pelosi said.

GOP pushes energy amendments

Republicans will continue to push for oil and gas drilling amendments to non-energy measures moving in the House, Rules Committee ranking member David Dreier (R-Calif.) said today.

During a Rules Committee hearing, Republicans made a failed attempt to add several energy-related amendments to H.R. 3667, which would require a study of the Missisquoi and Trout rivers in Vermont for potential designation as wild and scenic.

One amendment from Minority Leader John Boehner (R-Ohio) would have attached H.R. 6566, an amalgamation of previously introduced GOP bills aimed primarily at boosting domestic production of oil and alternative fuels, to the end of the bill.

Republicans say Congress should focus on the energy question before moving on to other matters like the river study. "The idea of doing it at the expense of [energy] issues is something I think we need to point out," Dreier said. "As important as it may be, we need to focus on energy."

Reid floats votes on competing drilling plans next week

E&E, September 9, 2008; <http://www.eenews.net/EEDaily/2008/09/09/1/>

Ben Geman

Senate Majority Leader Harry Reid (D-Nev.) hopes to bring three competing energy packages to the floor next week that include wider offshore oil and gas drilling.

But whether the flurry of legislative plans, unfolding in the hyper-partisan run-up to the elections, will eventually become law remains to be seen.

The potential votes next week would follow a one-day, bipartisan energy summit planned for Friday hosted by the Energy and Natural Resources Committee.

One of the bills would be a measure Sens. Jeff Bingaman (D-N.M.) and Max Baucus (D-Mont.) are drafting that would include outer continental shelf drilling provisions, Reid said. The plan would expand drilling into the eastern Gulf of Mexico as close as 50 miles from Florida.

Bingaman said it may also allow drilling in other coastal areas but added the measure is still being worked on. Current drilling restrictions cover both coasts and the eastern gulf.

According to Reid's office, the Bingaman-Baucus plan will also require "diligent" development of current leases that oil companies hold and extend several renewable energy and efficiency tax credits, paying for them by repealing oil industry subsidies. Other provisions would include the repeal of royalty waivers and enactment of national efficient building codes.

Another measure to be brought up will be the so-called Gang of 10 plan that blends wider drilling with higher taxes on oil companies, which would help pay for extended renewable energy credits and tens of billions of dollars in other investments in alternative energy and conservation. It includes provisions to support coal-to-liquids plants and expanded nuclear power.

It would allow drilling as close as 50 miles from Florida's gulf coast. It would also allow drilling in the Atlantic Ocean more than 50 miles off the coast of four Southeastern states -- North and South Carolina, Georgia and Virginia -- if their state governments want it. The states with offshore production would also receive a royalty share.

There are currently 16 formal supporters of that plan -- equally divided between the parties -- and Sen. Kent Conrad (D-N.D.), one of the leaders, said yesterday that five more Democrats have expressed interest in joining.

The bill would repeal the Section 199 deduction for major integrated oil companies. A draft in circulation would also impose a severance tax on oil and gas produced in the Gulf of Mexico. But it allows a credit against this tax for royalties paid. This effectively would require payments from late 1990s Gulf of Mexico deep water leases that are currently allowed royalty waivers -- called "royalty relief" -- regardless of energy prices.

The bill will include other revenue-raising provisions, but the sponsors of the measure have not yet identified what they will be. Conrad told reporters yesterday that backers have been talking to the Finance Committee about other offsets beyond the oil industry revenues, but he did not provide specifics.

The total package of credits, funding for alternative energy programs and other measure will cost more than \$80 billion, sponsors said when they announced the plan roughly a month ago. However, Conrad told reporters that some of the tax credits specifically in the plan are less costly than was originally believed.

Higher taxes on oil companies are drawing GOP attacks on the Gang of 10 plan. Many GOP lawmakers also want more expansive offshore drilling measures.

"I am against it, personally," said Sen. Kay Bailey Hutchison (R-Texas), who chairs the Republican Policy Committee and is generally aligned with other GOP leaders including Minority Leader Mitch McConnell (R-Ky.) on energy policy. "It does not have significant drilling and it is a huge tax increase," she said yesterday.

Reid also said there could be votes on a Republican drilling plan. But it is not clear how many amendments they would be allowed or in what form, an issue that became a point of dispute during efforts to move forward on energy legislation before the August recess. An aide said there could be "several" GOP amendments.

The bills Reid said would be considered next week would technically be amendments to legislation on curbing oil market speculation that stalled before the recess.

However, Conrad said the underlying bill would not address oil market regulation. "The speculation provisions are going to be stripped out so that is not an issue. That will be dealt with separately. We will have a chance to have ... consideration of the Bingaman proposal, our proposal and whatever the Republican proposal is," he said.

Government shutdown?

Republicans still want to use the planned continuing resolution (CR) to push for wider drilling. They say the CR should not include bans on drilling that are normally contained in the Interior Department spending bill. "I would vote against a CR that does not take away the moratorium," Hutchison told reporters yesterday.

But Reid urged Republicans not to force the issue through the CR, which would continue federal spending beyond the Sept. 30 end of the fiscal year. Plans to push for drilling through the CR has raised the specter of a government shutdown if the sides deadlock over the issue.

"Shutting down the government means that senior citizens stop receiving checks and veterans stop receiving health care. We must not let that happen, and I hope Republicans will work with us on a reasonable process to avoid it," Reid said.

Earlier this summer, President Bush removed executive-level leasing bans, but congressional limits remain in place. Bush has for weeks been calling on lawmakers to allow outer continental shelf leasing. White House spokeswoman Dana Perino yesterday sidestepped questions about whether the president would veto a CR that includes drilling bans.

Energy summit draws industry execs, experts

Friday's energy summit, which is open to all senators and the public, will include testimony from an array of industry officials and experts. They include Shell Oil Co. President Marvin Odum; General Motors Corp. Chief Executive Richard Wagoner; Dan Reicher, who heads climate change and energy initiatives for Google; and several others.

"I look forward to a free-wheeling discussion that will bring about greater understanding of the issues confronting us and the best ways to address them," said Sen. Pete Domenici of New Mexico, the energy committee's top Republican.

Schedule: The energy summit is Friday, Sept. 12, from 9:30 a.m. to 3:30 p.m. in G50 Dirksen.

Conservationists asking to keep ban on off-shore drilling

Foster's Daily Democrat. September 9, 2008;

http://www.fosters.com/apps/pbcs.dll/article?AID=/20080909/GJNEWS_01/709099880/-1/FOSNEWS

By JASON CLAFFEY

DOVER — With federal lawmakers poised to take action on an energy proposal that could lift the decades-long ban on offshore drilling, the Conservation Law Foundation is making a plea to the New England congressional delegation to keep the ban in place, citing the potential damage drilling could do to marine life and arguing it would do little to lower gas prices.

Locally, the CLF's efforts may embolden the Maine senatorial delegation — which has publicly opposed lifting the ban to protect Georges Bank in the Gulf of Maine — more than its New Hampshire counterpart. Sens. John Sununu and Judd Gregg, both Republicans, are proponents of increased offshore drilling.

Last week the Boston-based CLF, which pursued legal action that led to establishment of the drilling moratorium in 1982, sent a letter to senators and representatives urging them to consider the effects drilling would have on the Georges Bank ecosystem, the fishing economy and the aesthetic of the New England coastline. The ban prohibits oil and natural gas drilling from 3 to 200 miles offshore on the outer continental shelf.

Drilling would "jeopardize these ocean resources whose many commercial and recreational benefits are a cornerstone of the region's coastal economies," read the letter, which was signed by CLF President Phil Warburg.

It continued, "As coastal development and resource extraction have increased, so has our understanding of the degradation that we are inflicting on ocean wildlife and underwater habitat. The depletion of once-abundant cod, flounder and other fish populations and the imperiled state of many marine mammals stand as testimony to the fact that our ocean's wildlife needs more protection, not less. At a time when our fisheries resources are beginning to rebuild and marine mammal protection is beginning to receive the attention it deserves, we must not open up the ocean waters off our shores to the serious and real threats that oil drilling will bring."

Priscilla Brooks, director of CLF's Ocean Conservation Program, argued that drilling makes "no sense" in New England.

"Our fisheries are much too valuable to jeopardize with oil and gas drilling," Brooks said in a telephone interview Monday.

She emphasized Georges Bank, which had about 10 exploratory wells drilled into it before the federal ban was in place. All of the wells came up dry for oil and natural gas, according to CLF Vice President Peter Shelley.

One argument pro-drilling lawmakers have voiced ever since President Bush in June called for lifting the ban is that drilling now would be a stopgap measure while long-term solutions can be explored. Brooks said extracting oil and gas from the protected area would have a negligible effect on prices, lowering them "a few cents one or two decades from now."

She added drilling would compromise marine life around Georges Bank — "one of the most productive ecosystems in the world," she said.

The government's focus should be on alternative energy sources to lessen the strain high fuel prices have caused on consumers, Brooks added.

After it reconvened on Monday following a five-week summer recess, Congress in the coming weeks could vote on an energy proposal that was introduced by a group of 10 senators. Called the New Energy Reform Act, the plan would allow drilling in the Gulf of Mexico and give mid-Atlantic states like Georgia and Virginia the option to allow gas and oil exploration 50 miles off their coasts.

Maine Sens. Olympia Snowe and Susan Collins, both Republicans, have said drilling could harm the state's fishing industry.

New Hampshire Sen. Gregg, on the other hand, said through a spokesperson Monday that drilling is a "key element to reducing our nation's dependence of foreign oil and bolstering our economy through American energy production."

Also through a spokesperson, Sen. Sununu said: "Lifting the ban on offshore production would allow the Department of the Interior to move forward with proposals for offshore leases in those areas that are geologically best suited for oil and gas exploration. In that process, Interior policy must work to conserve resources, operate

safely, and take maximum steps to protect the environment. Recent experience has shown that within the Gulf of Mexico, current production techniques effectively protect even the most sensitive areas within the Gulf."

Drilling for a 'comprehensive' energy plan

Boston globe, September 9, 2008;

http://www.boston.com/news/nation/articles/2008/09/09/drilling_for_a_comprehensive_energy_plan/

By Derrick Z. Jackson

TO DRILL or not to drill. We know the answer of the Republicans from their "drill, baby, drill" convention. Last weekend, President Bush again called for oil drilling on the outer continental shelf and blamed Democrats for blocking him. "This is their final chance to take action before the November elections," Bush warned. "If members of Congress do not support the American people at the gas pump, then they should not expect the American people to support them at the ballot box."

The actions of the Democrats in this three-week session will tell us whether they will signal the changes that might come in an Obama administration or they will wilt again. During the primaries, the Democrats vilified the plunderous energy policies of the Bush administration, the secretive energy meetings of Vice President Dick Cheney, and the record profits of Big Oil. In June, Barack Obama reacted to Bush's call for drilling by saying, "The politics may have changed but the facts haven't. . . . When I'm president, I intend to keep in place the moratorium here in Florida and around the country. . . . That may not poll well. . . . My job is not to go with the polls. My job is to tell the American people the truth."

But in recent weeks, Obama and other top Democrats have thrown water on the fires of their rhetoric with a sneaky big word: comprehensive.

With 62 to 74 percent of Americans now favoring offshore drilling in recent polls, Obama went to the battleground state of Michigan with a message of change that was not exactly what he has been selling. Despite repeating that "George Bush's own Energy Department has said that if we opened up new areas to drilling today, we wouldn't see a single drop of oil for seven years," Obama went on to tout a possible bipartisan compromise that supposedly mixes investment in renewable sources of energy with a "limited amount of offshore drilling."

Obama said, "I am willing to consider it if it's necessary to actually pass a comprehensive plan . . . particularly since there is so much good in this compromise that would actually reduce our dependence on foreign oil."

Obama appeared to soften his stance even more last week in another battleground state, Pennsylvania. He told an audience (after the usual drilling-won't-get-us-much qualifiers), "science and technology has caught up to the point where we can explore some new areas where we could potentially get more oil reserves."

House Speaker Nancy Pelosi said in 1996 that she ardently supported a permanent moratorium on offshore drilling off her home state of California coast because, "We cannot allow our environmentally sensitive and economically vital coastline to be spoiled." But on NBC's "Meet the Press" two weeks ago, Pelosi said, "We'll put it all on the table, comprehensive, offshore drilling, if that is worth it, but renewable energy resources so that we do not get in this situation again." Told by host Tom Brokaw that her position was a "big change," Pelosi said, "As speaker, I have to put everything on the table. . . . I don't think it's a good alternative, but if they can prove that it is, and they want to pay royalties to the taxpayer, let us use these royalties to invest in renewable energy resources."

Senate majority leader Harry Reid said the call for drilling from Bush and John McCain was a "cynical campaign ploy," but he, too, will accept a "comprehensive" package that allows drilling. All of this is a reminder that for all the Democrats' rhetoric, the hand of Big Oil is moving in the background. McCain has so far taken in \$1.4 million in campaign contributions from the oil and gas lobby, according to the Center for Responsive Politics. That is a lot more than Obama's nearly \$400,000. But between Obama, Hillary Clinton and Bill Richardson, the three crossed the \$1 million mark in contributions.

The next three weeks will tell what kind of spine the Democrats have as the Republicans try to drill a hole right through it. If the facts have not changed about drilling, then let the politics of Democrats show it.

Dems' offshore drilling plan comes with catch

San Francisco Chronicle, September 9, 2008; <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/09/09/MN1E12QE1Q.DTL>

Zachary Coile

(09-09) 04:00 PDT Washington - -- Just three years ago Richard Pombo, the cowboy boot-wearing Tracy Republican lawmaker, faced an outcry from Democrats for pushing a bill to lift the 27-year-old ban on drilling off the East and West coasts and let states choose whether to allow oil rigs off their shores.

In a sign of how much the energy debate has shifted in an era of nearly \$4-a-gallon gasoline, virtually the same proposal that Pombo floated will be introduced on the House floor this month - by Democratic House Speaker Nancy Pelosi.

But Republicans aren't exactly cheering the new Pelosi proposal. She plans to tie new offshore drilling to measures that are loathed by the GOP - such as revoking billions of dollars in tax breaks for oil companies and forcing utilities to get more of their energy from wind and solar.

As Congress returns this week for a three-week legislative sprint, the two parties will face off in a chess match over energy with high stakes for both the November elections and the nation's energy future.

For weeks, Republicans have dominated the debate by demanding more domestic drilling. Polls show that strong majorities of Americans support the idea. It was a leading refrain at last week's Republican convention in St. Paul, Minn., where delegates chanted, "Drill, baby, drill."

Beyond drilling

But Democrats believe the GOP may have overplayed its hand by focusing on drilling when polls also show Americans want the country to quickly develop new cleaner, renewable energy sources.

"All the Republicans want to talk about, all Sen. (John) McCain has talked about is drilling," Senate Majority Leader Harry Reid, D-Nev, said Monday. "I don't oppose drilling, but this isn't a be-all, end-all. We need a comprehensive approach."

House Democrats are expected to make public their energy bill as early as this week, but Democratic aides are already indicating it will include a "state options" plan that would give coastal states the right to choose whether to allow drilling - and perhaps a share of the royalties.

To win support from environmentalists, who have long opposed lifting the drilling ban, Democrats also plan to repeal at least \$18 billion in subsidies to oil companies and shift that money to tax credits for renewable energy. Democrats also plan to revive a plan, passed by the House last year, to require electric utilities to get at least 15 percent of their energy from wind, solar, geothermal or other renewable sources by 2020.

But House Republicans are already complaining that the Democratic plan would keep too much of the nation's energy locked up. They want to force Pelosi to allow a vote on their energy plan, which also would open areas of the eastern Gulf of Mexico and Alaska's Arctic National Wildlife Refuge to oil and gas exploration.

"Clearly, they're inching toward some sort of domestic supply component so we have to look at that," said Rep. Joe Barton, R-Texas, the top Republican on the House Energy and Commerce Committee. "But I can't imagine accepting a half a slice of bread when the whole loaf is out there."

Senate Democrats are plotting a similar strategy as their House counterparts, planning to vote next week on three separate energy provisions that include both drilling and renewable energy provisions.

Senate amendments

The Senate will vote on an amendment being crafted by Sen. Jeff Bingaman, D-N.M. and Sen. Max Baucus, D-Mont., that would revoke tax breaks for oil companies, open areas off the eastern Gulf of Mexico and the East and West coasts to drilling, renew expiring wind and solar tax credits and new energy-efficient building codes.

Reid said he also would allow a vote on an energy plan proposed by the "Gang of Ten," a group of five Democrats and five Republicans, that would allow drilling off the coast of four states - Virginia, North Carolina, South Carolina

and Georgia - while also revoking tax breaks for oil companies and offering new incentives for wind and solar, biofuels, coal-to-liquid fuels and nuclear energy.

Most Capitol Hill insiders believe there's little chance any of the measures will become law. Congress has a short time to act - it's just three weeks before the House is set to adjourn. President Bush has promised to veto any legislation that raises taxes on oil companies, which he believes would limit production. Oil companies may never let the legislation reach his desk.

Kevin Book, a senior energy policy analyst at FBR Capital Markets, said he's betting the only energy legislation that's likely to pass is an extension of the tax credits for wind and solar, which expire at the end of the year and are popular with both parties.

"The Republicans could still potentially strike a deal, but it's not clear whether the Democrats have any incentive," Book said. "They can paint Republicans as objecting to cutting a deal - particularly as all the political analysis suggests they are going to come back next year with the upper hand" by picking up seats in the House and Senate in November.

Decision time

Both parties are already game-planning for another scenario: On Sept. 30, the congressional moratorium on offshore drilling and a similar ban on oil shale development are set to expire. President Bush already has lifted the presidential moratorium on offshore drilling.

Congress also must move a temporary spending bill by Sept. 30 to keep the government funded and prevent a government shutdown. Democrats are expected to include a renewal of the two moratoriums as part of the spending bill, arguing that the only way they will let the bans lapse is as part of a broader energy bill that moves the country toward renewable sources.

But Republicans say they may call the Democrats' bluff and risk a government shutdown, and then lay the blame at Pelosi's doorstep.

It would be a huge gamble. The last time Republicans took the risk of forcing a temporary government shutdown - during a 1995 budget showdown with President Bill Clinton - they faced a major public backlash and ended up losing seats in the 2006 House elections.

Oil and gas exploration all the rage on Capitol Hill

Houston Chronicle, September 8, 2008; <http://www.chron.com/disp/story.mpl/business/5990584.html>

David Ivanovich

WASHINGTON — Drill, drill, drill.

Suddenly, oil and gas exploration is all the rage on Capitol Hill.

With energy prices a red-hot political issue, the Democratic-controlled Congress, in the midst of its final, three-week legislative sprint before the presidential elections, can't get enough of drilling bills.

Not that most Capitol Hill watchers seriously believe that — in the absence of a major supply disruption — any substantive energy legislation will actually emerge from this frenzy and become law.

"You don't pass energy bills in the heat of the campaign season," noted Frank Maisano, an energy specialist with Bracewell & Giuliani. Still, there should be plenty of action.

Tuesday, House Speaker Nancy Pelosi, D-Calif., is expected to unveil an energy package that would open new areas offshore to oil and gas drilling, with plans to bring the bill to the floor for a vote as early as this week.

Senate Majority Leader Harry Reid, D-Nev., has declared next week "Energy Week" in the Senate, with votes on a series of drilling amendments possible.

Republicans are widely viewed in this town as having gained some real political traction with their calls for expanded drilling.

GOP presidential nominee John McCain has been crisscrossing the country calling on the U.S. to "drill here ... drill now." Delegates to the Republican convention were chanting "Drill, baby, drill," while President Bush, during his Saturday radio address, all but goaded Democratic leaders for having "ignored the public's demand for relief from high energy prices.

"This is their final chance to take action before the November elections," Bush said. "If members of Congress do not support the American people at the gas pump, then they should not expect the American people to support them at the ballot box."

House Republicans were out on the Capitol west front steps Monday, touting what they call an "All of the Above" energy strategy, which would open the federal waters offshore and the Arctic National Wildlife Refuge to drilling, while also encouraging development of oil shale and pushing for construction of new refineries.

The GOP news conference, however, was all but drowned out by environmental activists chanting "Spill, baby, spill."

Hoping to snatch back some of the political ground lost to Republicans, House Democrats — in a significant policy shift — are expected to unveil a bill that would allow coastal states to decide whether to allow drilling in the federal waters off their shores.

That potentially could pave the way for drilling off the coasts of Virginia, Georgia and the Carolinas — all areas that have expressed at least some interest in drilling.

Next week, Senate Energy Committee Chairman Jeff Bingaman, D-N.M., and Senate Finance Committee Chairman Max Baucus, D-Mont., will push a proposal to open portions of the eastern Gulf of Mexico — an area oil and gas producers are most intent on exploring — as well as other offshore areas to drilling, Bingaman said.

Last month, a bipartisan group of senators calling itself the Gang of 10 proposed its own plan to open new areas in the eastern Gulf of Mexico and southeast Atlantic to oil and gas drilling. That group, which has expanded to become the Gang of 16 and could swell to the Gang of 22, will be championing its own package.

And Reid has promised to allow Republicans to bring their own drilling measure up for a vote.

But passage of a drilling bill remains highly uncertain.

Energy legislation, by necessity, must be written in a collaborative fashion, Maisano argued. "And we're not in a collaborative time right now."

The House Democratic package, for instance, is expected to hit the oil companies up with higher taxes, but Bush has threatened to veto previous bills that included similar language.

The plan also is likely to require electric utilities to generate a portion of their power using renewable sources like wind and solar. That provision faces opposition from Southern lawmakers.

House Republicans already are complaining about Democrats crafting an energy bill without their input.

"My guess is we're going to vote against everything they throw up, until we get a process that's open and fair," said Rep. Joe Barton of Ennis, the ranking Republican on the House Energy and Natural Resources Committee.

The whole energy debate may be headed toward a high-stakes showdown at the end of the month, when lawmakers will have to vote on a resolution to continue funding the federal government during the next fiscal year, which begins Oct. 1.

Republicans are threatening to oppose that resolution — and possibly shut down the federal government — unless Democrats agree to drop a congressional moratorium that bars oil and gas producers from drilling in most of the federal waters offshore. Bush lifted a similar, presidential ban back in July.

Two variables, however, could upset the calculus of the energy debate — Hurricane Ike and the Commodity Futures Trading Commission, noted Kevin Book, an oil and energy policy analyst with FBR Capital Markets.

If Ike were to inflict the kind of damage on the nation's energy infrastructure Katrina and Rita did three years ago and send gasoline prices soaring, the political support for expanded offshore drilling could change quickly.

The Commodity Futures Trading Commission, meanwhile, has been examining why oil prices spiked so high this year. And an agency official is slated to testify on Capitol Hill Thursday.

If the agency were to uncover real evidence of market manipulation, that could spark its own congressional stampede, Book noted.

Congress warms to new oil drilling

Associated Press, September 8, 2008; <http://ap.google.com/article/ALeqM5imPz0z6szykAL-CAKZDEZOAiDREgD932RF400>

By H. JOSEF HEBERT

WASHINGTON (AP) — Senate Democrats promised a series of votes next week on offshore oil drilling as Republicans agreed Monday to let the Senate proceed on a defense bill that had been bottled up because of partisan disputes over the country's energy priorities.

Majority Leader Harry Reid of Nevada said he is ready to take up two proposals that would allow limited oil and gas drilling 50 miles off Florida's Gulf coast and in the Atlantic off four southeastern states as well as a broader Republican drilling bill.

"We are offering Republicans multiple opportunities to vote for increased drilling," declared Reid, addressing what has become the biggest energy issue in Congress as well as in the presidential campaign.

The Senate on Monday voted 83-0 to move ahead with the defense bill as early as Tuesday as Republicans abandoned their filibuster on the measure that authorizes \$612.5 billion in military spending, including \$70 billion for the wars in Iraq and Afghanistan.

A version of the defense bill already has passed the House.

But offshore oil drilling continued to dominate the rhetoric on Capitol Hill.

The issue gained momentum during the just-concluded Republican convention where — amid delegate chants of "drill baby drill" — GOP presidential nominee Sen. John McCain called for opening currently off-limits waters to energy development as soon as possible.

His rival for the presidency, Democratic Sen. Barack Obama, also has signaled support for some additional expansion of offshore drilling as part of a broader energy package.

A bipartisan group, originally known as the Gang of Ten, that has crafted a drilling compromise gained more members and has grown to 22 senators. The group has proposed allowing drilling 50 miles off the coasts of Virginia, South Carolina, North Carolina and Georgia and off the Gulf coast of Florida.

Separately, Sen. Jeff Bingaman, D-N.M., was preparing a proposal that also would include drilling in the currently off-limits eastern Gulf of Mexico and possibly elsewhere. Both proposals would rescind oil industry tax breaks and shift the money to spur energy efficiency and renewable energy programs such as those to provide wind and solar power.

Republican leaders are expected to push for broader offshore drilling and are likely to call for lifting drilling bans along both the Pacific and Atlantic coasts as well as the eastern Gulf of Mexico. They also have strongly opposed any additional taxes on oil companies.

Prospects for any drilling legislation remain uncertain.

Sen. Bill Nelson, D-Fla., on the Senate floor Monday, ridiculed "the misguided rhetoric and hollow chants" of the pro-drilling forces. "This senator is not going to allow Florida to be a sacrificial lamb" to an energy compromise, he said, opening the possibility of a filibuster against drilling legislation.

Meanwhile, House Republican leaders on Monday demanded an end to all of the drilling bans on the Outer Continental Shelf's federal waters as well as in Alaska's Arctic National Wildlife Refuge.

"We want a vote," House GOP leader John Boehner R-Ohio, declared at a gathering of more than 40 House Republicans on the steps of the Capitol, demanding that House Speaker Nancy Pelosi, D-Calif., allow floor consideration of the Republican energy package.

A group of demonstrators opposing expanded offshore drilling gathered nearby and at times drowned out some of the GOP lawmakers' remarks with the chant: "Save our shores, save our shores."

Meanwhile, Pelosi was planning to announce the House Democrats' energy proposals on Tuesday. They include a proposal for limited offshore drilling — though nowhere near what the Republican leadership is demanding.

House GOP Threatens Shutdown Over Drilling

CQ Today, September 8, 2008;

<http://www.cq.com/document/display.do;jsessionid=233D129572DA87529A6D168BB9ECA2D2.manono?matchId=64642478>

By Coral Davenport

House Republicans signaled Monday that they are ready to cut off government spending over the issue of offshore drilling, though the party's Senate leader said he hopes to reach an energy deal and avoid a shutdown.

House Minority Leader John A. Boehner, R-Ohio, called a Democratic energy proposal to allow limited offshore drilling inadequate. Boehner said House Republicans would vote against a spending resolution needed to keep the government running when the new fiscal year begins Oct. 1 unless restrictions on offshore drilling are dropped from it.

"We're going to insist that any continuing resolution that passes does not continue the drilling ban," Boehner said.

Boehner's threat is largely symbolic, as Democrats control enough votes in the House to pass a spending bill over Republican objections. But Republican cooperation will be needed to pass such a resolution in the Senate, where 60 votes are necessary to overcome a filibuster.

"There is still time to act on this issue," said Senate Minority Leader Mitch McConnell, R-Ky. "And we should."

While McConnell downplayed talk of a government shutdown, other Senate Republicans said they would vote against any funding resolution that includes the ban on offshore drilling expansions, which has been renewed in appropriations bills since 1992 and was most recently included in the fiscal 2008 omnibus spending bill (PL 110-161).

"We have to take that moratorium away," said Sen. Kay Bailey Hutchison, R-Texas.

The call for more offshore drilling has been a powerful election-year issue for Republicans, with appeal to taxpayers unhappy with higher energy prices. Chants of "Drill!" filled the Republican National Convention last week, and GOP lawmakers kept a daily vigil in the House chamber during the summer recess. Republican bloggers and talk show hosts have attacked party members trying to negotiate a bipartisan Senate compromise.

"For the last five months, we have used this issue effectively to put Democrats on the defensive, and that's going to continue into November," said Kevin Smith, a spokesman for Boehner.

But even as they try to defuse the politically charged issue with legislation allowing limited new offshore oil and gas exploration, Democrats warn that a government shutdown would boomerang against Republicans.

“Let’s be clear,” said Senate Majority Leader Harry Reid, D-Nev. “Shutting down the government means that senior citizens stop receiving checks and veterans stop receiving health care.”

Reid spokesman Rodell Mollineau said Republicans are kidding themselves if they think a shutdown will help them politically.

“If Republicans want to have a debate about denying senior citizens Social Security checks and health care, that’s a debate we’re willing to have,” he said.

House Leadership Package

House Democratic leaders are expected to move a bill to the floor as early as Sept. 11 that would allow Virginia, Georgia and the Carolinas to opt into drilling off their coastlines. A bipartisan group of senators has offered a similar compromise as part of a package that would also roll back tax breaks for the oil industry.

“It this bill is what we think it is, it’s nothing but another . . . poison pill sham,” Smith said. “Any deal, any bill, that puts 80 percent [of the outer continental shelf] off limits permanently will not find our support.”

At a news conference Monday, House Republicans were nearly drowned out by protesters—including some dressed as polar bears and pelicans—chanting “Spill, baby, spill!” and “Shame on Big Oil.”

Democratic leaders have not said whether they will bring their bill to the floor under a rule that would give Republicans a vote on their own drilling amendment.

Senate Negotiations

The Senate is expected to spend most of this week debating a defense authorization bill (S 3001), providing leaders with a little breathing space to negotiate before moving energy legislation to the floor next week.

Energy and Natural Resources Chairman Jeff Bingaman, D-N.M., and the panel’s ranking Republican, Pete V. Domenici of New Mexico, are hosting a bipartisan energy summit Sept. 12.

Reid said he plans to bring up a Bingaman-sponsored draft bill that would open new areas of the eastern Gulf of Mexico to drilling.

While that proposal, along with provisions extending tax credits for alternative energy, would likely enjoy bipartisan support, the bill would offset costs by cutting subsidies to oil companies, which many Republicans would oppose.

Reid also would call up the compromise draft legislation proposed by a bipartisan group of senators—the so-called Gang of 16—which would allow the Southeastern states to opt into drilling off their shores, as part of a broader package including an estimated \$84 billion in investments in conservation and efficiency offset by cutting tax breaks to oil and gas companies.

Budget Chairman Kent Conrad, the North Dakota Democrat who helped assemble the gang, said an additional five Democrats have expressed support for the plan. But many Senate Republicans remain committed to a complete repeal of the moratorium.

“We’re all trying to see how we can get that moratorium lifted,” said Alaska Republican Lisa Murkowski.

McConnell Says Work Must Go On

McConnell—caught between pressure to avoid a deal that does not end the moratorium and the political risks of being blamed for a government shutdown—has indicated a willingness to find a compromise.

“We also need to do our most basic duty of funding the government by passing appropriations bills,” he said.

“The upcoming election is no excuse to put off our responsibilities for another day. . . . The work of government must go on, regardless of how strong the partisan currents flow. It always has. And it should this year.”

Wind: The other untapped offshore energy source

Associated Press, September 8, 2008; <http://www.forbes.com/feeds/ap/2008/09/08/ap5400562.html>

Stephanie Garlow

WASHINGTON - Visitors to Rehoboth Beach, Del., soon may be greeted by more than sand dunes, seagulls and beach umbrellas. If offshore wind advocates have their way, scores of 140-foot blades will be spinning in the ocean breeze nearly a dozen miles away, barely visible to the sunbathers.

Offshore wind has taken a back seat to offshore drilling for oil and natural gas in the current energy debate. But those wind-driven turbines probably will be operating long before oil platforms appear off Atlantic Coast states.

Delaware hopes to be the first state to construct a wind farm off its coast. The project, scheduled to be completed in 2012, is one of several offshore wind proposals that have cleared significant hurdles in recent months.

Proponents say wind offers more long-term energy independence than offshore oil. Residents along the Eastern seaboard are embracing it as a stable-priced, environmentally friendly energy alternative.

"When people see the price of gas hit \$4, they are very open to having discussions about alternatives," said Stephen Smith, executive director of the Southern Alliance for Clean Energy, a nonprofit group.

Wind energy today accounts for only 1 percent of the nation's electricity. A May report from the Energy Department concluded wind energy could generate 20 percent by 2030, with offshore sources accounting for nearly 20 percent of that. Projects mostly would be located along the Atlantic coast because the seabed floor elsewhere drops off too quickly to anchor turbines.

In Delaware, offshore wind has caught everyone's imagination, said Patricia Gearity, a member of Citizens for Clean Power, a grass-roots organization based in the state.

"People liked that it was homegrown wind, that we weren't going to import it from somewhere else," said Jeremy Firestone, a professor of marine policy at the University of Delaware.

Offshore wind supporters say recent proposals have not faced the same kind of opposition that previously dogged projects off Massachusetts' Cape Cod and New York's Long Island. But even on Cape Cod, attitudes are changing. Where critics once held a floating anti-wind farm demonstration, polls show that public opinion has swung in favor of an offshore project.

The Long Island project was scrapped last year. But fishermen in neighboring New Jersey who once opposed offshore wind power have banded together to submit one of five bids for a 350-megawatt wind farm that would produce enough electricity for up to 100,000 households. Rhode Island may select a developer this fall for a wind energy project.

Delaware residents took to the blogosphere, called their legislators and turned out in droves at public hearings to push for the proposed project off Rehoboth Beach. It stalled last year, but months of negotiations and strong grass-roots organizing resulted in its approval by the Delaware Legislature in June.

"During that period of time, you saw headline after headline roll out about the increase in prices, not only in oil, not only in gas, but the big spike in natural gas and propane costs," said Gearity, a 58-year-old retired lawyer.

The project, proposed by Bluewater Wind, would include between 60 and 200 wind turbines spaced about a half mile apart. Delmarva Power has agreed to buy electricity from the project for 25 years. Bluewater is owned by the global investment firm Babcock & Brown, which operates wind farms in several states.

For each turbine, a pole would be hammered about 90 feet below the seabed floor. Another pole would rise above the water with three 140-foot spinning blades at the top. At the highest point, the turbines would reach up about 400 feet; by comparison, the Washington Monument is about 555 feet.

Unlike its mid-Atlantic neighbor, the Cape Cod project has faced vocal and well-funded opponents who complained it would mar the ocean vista. Rising energy prices have made that argument less persuasive, said Barbara Hill, executive director of Clean Power Now, an independent Hyannis, Mass.-based organization that favors the project.

The 130-turbine project has now cleared most of the regulatory hurdles and proponents are hopeful it will be in operation within four years.

Cape Wind Associates, a subsidiary of the New England power company Energy Management Inc., has spent more than \$30 million on the Massachusetts project, investing profits from its natural gas-fired power plants, said Cape Wind spokesman Mark Rodgers.

In New Jersey, Daniel Cohen, the president of the offshore wind developer Fishermen's Energy, said the organization reassessed its opposition, deciding to view offshore wind as an opportunity, not a threat.

"The public has a heightened interest to finding solutions in what it sees as a growing problem in our dependence on fossil fuels," said Cohen, who owns Atlantic Capes Fisheries in Cape May, N.J. Fishing company owners have put up the money for the project's development stage.

Significant obstacles to offshore wind still remain.

Policymakers and utility companies need to commit to long-term contracts, said Firestone, the University of Delaware professor. He pointed out that New Jersey and Rhode Island still do not have buyers for the power from the proposed projects.

There also needs to be more stability in the federal government's support for wind power, said Laurie Jodziewicz, manager of siting policy at the American Wind Energy Association. When Congress allowed a renewable energy tax credit to expire in the past - in 2000, 2002 and 2004 - wind capacity installation dropped 93 percent, 73 percent and 77 percent respectively from the previous year. A current tax credit is set to expire Dec. 31.

Proponents point out that most of the technology hurdles have been cleared, though costs remain high. They look at the almost 1,100 megawatts of offshore wind farms in European waters and say the Cape Cod and projects could jump-start offshore wind energy in the United States.

"This will be a game-changer once this project is built," said Hill, the Cape Wind advocate. "We are going to be dancing on Craigs ville Beach someday, looking out and seeing the turbines spinning."

Congress to revisit fight over offshore oil drilling

CNN, September 8, 2008; <http://www.cnn.com/2008/POLITICS/09/08/congress.energy/>

Ted Barrett, Deirdre Walsh, and Kate Bolduan

WASHINGTON (CNN) -- Lawmakers return to Capitol Hill on Monday to resume their fight over legislation allowing more offshore oil drilling, in a bid to help relieve sky-high gasoline prices that are hurting the economy and infuriating voters.

While there were signs of compromise over the August recess, many on Capitol Hill are skeptical a deal can be reached that would send a bill to the president's desk before Election Day.

Aides and congressional members from both parties acknowledge finger-pointing is likely to trump legislative deal-making during the truncated three-week session before lawmakers return home to campaign for re-election.

Democratic leaders in the House and Senate, who long resisted Republican-led calls to lift the ban on offshore oil drilling, changed course over the recess and now say they will push comprehensive energy plans in September that will include expanded drilling.

But Democrats will insist energy bills also include their own priorities, such as repealing tax breaks for big oil companies, something many Republicans oppose.

"If this is going to be a fig leaf, a political document, then it's doomed to failure at the end of the day," Rep. Doc Hastings, R-Washington, said Friday about the package being put together by House Speaker Nancy Pelosi, D-California.

Despite a recent dip in prices at the pump, Republicans believe expanded oil drilling remains a potent political issue. They feel emboldened by complaints they heard from constituents over the summer break, and they are

convinced their August protest sessions on the House floor helped draw attention to a lack of congressional action on energy policy. Watch what voters told one Democratic congressman »

Republicans also expect a boost from their vice presidential candidate, Alaska Gov. Sarah Palin, a strong advocate of drilling. Delegates at the Republican National convention last week showed their fervor for drilling by punctuating speeches with chants of "drill, baby, drill."

Republicans believe Democrats are underestimating the political importance voters give the issue. They point to Sen. Chuck Schumer, D-New York, the head of the Senate Democrats' campaign effort, who was quoted last month in the newspaper Politico, saying the drilling issue had "peaked" for voters.

Pelosi plans to unveil her bill by the end of the week, her office said. In addition to allowing limited drilling on the Outer Continental Shelf, the measure is expected to include curbs on market speculators, and provisions promoting the use of alternative sources of energy and requiring the release of millions of barrels of oil from the Strategic Oil Reserve.

"Democrats support drilling, but a 'drill only' plan would do nothing but drill deeper and deeper into your wallet," Rep. John Larson, D-Connecticut, said last week.

A bipartisan compromise group in the Senate known as the "Gang of 10" expanded to 16 members over the break. Several more members are expected to join this week, a source involved with the group told CNN. The bill the "gang" is pushing would tie new offshore drilling to \$84 billion in investments in conservation and the use of alternative fuels.

Senate Majority Leader Harry Reid, D-Nevada, is working with the group and may link its bill to a package of tax breaks for producers of wind, solar, and other alternative fuels, an aide to the senator said.

Senate Republicans are wary of Reid because they don't think he will allow votes on their amendments, something they will insist upon, even if the bill includes provisions they support, like offshore drilling, a Senate Republican leadership aide told CNN.

Senators are holding a bipartisan energy summit Friday, sponsored by Reid and Senate Minority Leader Mitch McConnell, R-Kentucky, to hear from industry experts, but it's not clear the summit will actually help bridge differences between many Democrats and Republicans.

The controversy over offshore drilling could prompt a showdown later this month over a must-pass bill to fund the government through early 2009. The bill includes an annual extension of the moratorium on offshore oil drilling.

Republicans will attempt to strip it out, but if they fail, they could try to block passage of the entire spending bill, which could lead to a partial government shutdown.

Such a gamble would be politically risky, but in an election year in which Republicans expect to lose seats in each chamber, some lawmakers may want to roll the dice.
