

Week in News: September 15-21, 2008

The drilling bill that bans drilling

Boston Globe, September 21, 2008;

http://www.boston.com/bostonglobe/editorial_opinion/oped/articles/2008/09/21/the_drilling_bill_that_bans_drilling/

Minerals Case Decision Protested

Washington Post, September 19, 2008; <http://www.washingtonpost.com/wp-dyn/content/article/2008/09/18/AR2008091803960.html>

Senate 'Gang of 20' shelves legislation -- for now

E&E, September 19, 2008; <http://www.eenews.net/Greenwire/2008/09/19/2/>

Interior Secretary Says He May Fire Gift-Takers

NYT, September 19, 2008; <http://www.nytimes.com/2008/09/19/business/19royalty.html?ref=business>

Pelosi's Drilling Ruse

WSJ, September 19, 2008; http://online.wsj.com/article/SB122178414427154783.html?mod=googlenews_wsj

Drilling for subsidies

Washington Times, September 19, 2008; <http://washingtontimes.com/news/2008/sep/19/drilling-for-subsidies/>

Congress panel blasts Interior Department officials on oil royalties scandal

Los Angeles Times, September 19, 2008; <http://www.latimes.com/business/careers/work/la-na-interior19-2008sep19.0.7362048.story>

Hurricane Ike destroys 49 oil platforms in Gulf

Associated Press, September 18, 2008;

http://ap.google.com/article/ALeqM5iegCzko2qT3cUfD_XPxPGVOVMwgD939CVL80

Democrats may leave bans off spending bill

CQ Today, September 18, 2008; <http://www.eenews.net/EEDaily/2008/09/18/3/>

Administration rips Democrats' energy bill as waste of time

CNN, September 18, 2008; <http://www.cnn.com/2008/POLITICS/09/17/white.house.energy/>

Republicans See Electoral Hopes in Democrats' Shift on Offshore Drilling

CQ Today, September 17, 2008;

<http://www.cq.com/document/display.do;jsessionid=52D769AE538457FA2CC90957A0CCBC23.monhegan?matchId=65389491>

Coastal State Republicans Balk at Drilling

CQ Today, September 17, 2008;

<http://www.cq.com/document/display.do;jsessionid=357FAD43D3415A65A3926E15EE537828.upolu?matchId=65387377>

Senate 'Gang of 20' looks to 'fish or cut bait' on bill

E&E, September 17, 2008; <http://www.eenews.net/eenewspm/2008/09/17/1/>

Offshore drilling up to Senate after House passage

Associated Press, September 17, 2008;

<http://ap.google.com/article/ALeqM5gB6bi0EyTozdEPy0KGisTQNaS2PQD938ASM00>

House Passes Bill To Expand Drilling, Fund Renewables

Washington Post, September 17, 2008; <http://www.washingtonpost.com/wp-dyn/content/article/2008/09/16/AR2008091601216.html>

Enviro groups still struggling with message, tactics in oil drilling debate

E&E, September 17, 2008; <http://www.eenews.net/EEDaily/2008/09/17/2/>

Drilling Bill Passes in House

CQ Today, September 16, 2008; <http://www.cq.com/document/display.do?matchId=65282637>

With 97% of gulf production stalled, DOE delivers from strategic reserve

E&E, September 16, 2008; <http://www.eenews.net/eenewspm/2008/09/16/7/>

Senate Energy Negotiators Tweaking Plan to Bring McCain Onboard

CQ Today, September 16, 2008; <http://www.cq.com/document/display.do?matchId=65237919>

House To Take Up Energy Bill Expanding Offshore Drilling

CQ Today, September 16, 2008; <http://www.cq.com/document/display.do?matchId=65218594>

Congress debating end of offshore drilling ban

San Francisco Chronicle; September 16, 2008; <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/09/16/MNIP12T0JT.DTL>

Ms. Pelosi's Compromise

NYT, September 16, 2008; <http://www.nytimes.com/2008/09/16/opinion/16tue2.html>

Coastal Drilling Debate Is Headed to House Floor

CQ Today, September 15, 2008;

<http://www.cq.com/document/display.do;jsessionid=93209A09B88B413789C8BA26D3FF98CA.manono?matchId=65146875>

One if by Land, Billions if by Sea

NYT, September 15, 2008; <http://www.nytimes.com/2008/09/15/opinion/15abraham.html?ref=opinion>

Obstacles stunt Calif. offshore drilling

Washington Times, September 15, 2008; <http://washingtontimes.com/news/2008/sep/15/unlikely-obstacles-stymie-california-offshore-dril/>

Gasoline prices rise as Ike disrupts fuel networks

Greenwire, September 15, 2008; <http://www.eenews.net/Greenwire/2008/09/15/2>

Democrats' partial retreat on offshore drilling faces floor tests

E&E, September 15, 2008; <http://www.eenews.net/EEDaily/2008/09/15/1/>

Save the Environment: Drill, Baby, Drill

NYT, September 15, 2008; http://www.nytimes.com/2008/09/15/opinion/15hahn.html?_r=1&oref=slogin

The drilling bill that bans drilling

Boston Globe, September 21, 2008;

http://www.boston.com/bostonglobe/editorial_opinion/oped/articles/2008/09/21/the_drilling_bill_that_bans_drilling/

By Jeff Jacoby

Q: Says here the House of Representatives approved a bill to allow offshore oil drilling, but nearly all the Republicans voted against it. Weren't Republicans the ones chanting "Drill, baby, drill!" at their convention last month?

A: Yep. That's why they voted against this bill. It isn't a drilling bill, it's an anti-drilling bill. If it becomes law, nearly all the oil and gas in the Outer Continental Shelf would be off-limits forever.

Q: Huh? This story says the bill "would allow offshore drilling as close as 50 miles from the Atlantic and Pacific coasts." It quotes House Speaker Nancy Pelosi: "It's time for an oil change in America, and this bill represents that." That's anti-drilling?

A: C'mon: A few weeks ago, Pelosi was implacably opposed to letting the House vote on lifting the offshore drilling moratorium. "I'm trying to save the planet!" she told Politico. "I'm trying to save the planet!" You really think someone so sanctimoniously hostile to drilling just six weeks ago is all for it now?

Q: But this bill -

A: This bill permanently bans all drilling within 50 miles of the US coast, which just happens to be where most of the recoverable oil and gas reserves are. It permits drilling between 50 and 100 miles out only if the adjoining states agree - which they won't, since the bill denies them any share in the royalties the oil companies would have to pay, thereby eliminating any financial incentive for a state to say yes. Virtually all the oil off the California coast and beneath the Eastern Gulf of Mexico would be locked up for good. Don't be fooled: The only offshore drilling this bill really opens the door to would have to be 100 miles or more out to sea, where the oil companies have no infrastructure.

Q: But the Democrats claim they are "expanding the availability of oil by at least 2 billion barrels."

A: Do you know how much oil is out there? According to the Interior Department, the offshore areas where drilling is restricted contain more than 19 billion barrels - that's equal to 30 years of current imports from Saudi Arabia. The bill would deny Americans access to as much as nine-tenths of that oil. A good deal? I don't think so.

Q: So what are you saying? The Pelosi bill is a sham?

A: Call it a political maneuver. Democrats don't really mind high gasoline prices; more pain at the pump means reduced consumption of fossil-fuel, which they and their environmental allies blame for global warming. But with millions of constituents growing increasingly upset over \$4-a-gallon gas, and with polls showing the public heavily in favor of lifting the drilling ban, they had to do something. Voila - Speaker Pelosi's bill: a feint of supporting offshore exploration that would actually make drilling more difficult.

Q: Well, I can't fault Pelosi for thinking about the planet. Maybe we need more energy, but do you really think drilling more oil wells in the ocean is good for the earth?

A: Here's a news flash: The less oil we pull out of the ground ourselves, the more we have to import from abroad. Now who do you think is more likely to injure the planet - the United States, which uses the world's most advanced and environmentally sensitive drilling technology? Or Saudi Arabia and Nigeria and other exporters that aren't nearly as fastidious about oil leaks and pollution? Think of the American oil rigs in the Gulf of Mexico. They're so well-built that not even Hurricanes Rita and Katrina caused a significant oil spill.

Q: OK, but isn't our addiction to oil the root of the problem? Don't we need to wean ourselves off oil and move to greener sources of energy?

A: In theory, sure. In reality, we'll be running on oil for decades yet. Listen to this:

Well, the winds of change are blowin'
And we recognize that need
But tractors, trucks, cars, and planes can't run on tomorrow's dreams
So while we're workin' on the future, we can't ignore today
Cause who knows how much time the alternative might take?

Q: Nice - where's that from?

A: A new song by Aaron Tippin, the country-music star..

Q: What's it called?

A: "Drill Here, Drill Now."

Minerals Case Decision Protested

Washington Post, September 19, 2008; <http://www.washingtonpost.com/wp-dyn/content/article/2008/09/18/AR2008091803960.html>

By Derek Kravitz

The Interior Department has pulled some of its investigators off the Jack Abramoff corruption task force to protest the Justice Department's decision not to pursue charges against two government officials in the separate oil royalties scandal that surfaced last week.

Interior's inspector general, Earl E. Devaney, reported last week the results of a two-year investigation that found officials at the department's oil royalties office in Colorado had attended parties with oil and gas marketers, accepted gifts including ski trips, sports tickets and golf outings, and steered contracts to favored clients.

The royalties program, part of Interior's Minerals Management Service, collects billions of dollars in oil and natural gas from companies given contracts to drill offshore or on federal or Indian lands. Since 2006, the program has been subjected to multiple investigations for alleged mismanagement and conflicts of interest.

Yesterday, Devaney told the House Natural Resources Committee that he was disappointed that two now-retired employees -- former oil royalty office chief Gregory W. Smith and former associate director Lucy Querques Denett - were not prosecuted.

Investigators allege that Smith, 56, was among a group of more than a dozen employees who took gifts from clients; was involved in illicit sexual relationships with subordinates; purchased cocaine at his office; and arranged improper outside consulting deals that allowed him to earn more than \$30,000.

The inspector general's reports allege that Denett, 55, improperly arranged a million-dollar deal for two retired employees, both of whom have pleaded guilty to federal conflict-of-interest charges. Denett and Smith have declined to comment on the report.

"I would have liked to see a more aggressive approach," Devaney said of the Justice decision not to charge Smith and Denett. He said Justice officials "were aware" of his desire to have the pair prosecuted.

Devaney did not testify about the details of the dispute with Justice. Sources familiar with the matter said his office removed some of its people from the Abramoff case in protest. On Tuesday, Senate Judiciary Chairman Patrick J. Leahy (D-Vt.) and Sen. Ken Salazar (D-Colo.) sent a letter to the attorney general, asking why Smith and Denett were not prosecuted and asking that charges be filed against them.

Sources with knowledge of the case said a possible medical condition might have been a factor in the decision not to charge Denett. She told investigators she was going through a "very stressful personal issue" at the time of the alleged wrongdoing.

Justice spokeswoman Laura Sweeney declined to comment on the case yesterday. "The Department of Justice makes prosecutorial decisions based on the facts and the law," she said. "That policy was followed in this instance."

Devaney also testified yesterday that it is "probable" that his office would have found that taxpayers lost royalty revenue because of the scandal, but that investigators were hampered by contract files that were in "terrible shape" and because a group of Chevron employees refused to be interviewed.

Interior Secretary Dirk Kempthorne told the committee he was assured that the "behavior described in these reports no longer exists in these programs." He said the ethics office at the royalty program would be expanded.

Senate 'Gang of 20' shelves legislation -- for now

E&E, September 19, 2008; <http://www.eenews.net/Greenwire/2008/09/19/2/>

Ben Geman

A bipartisan Senate effort to blend wider offshore oil-and-gas drilling with expanded renewable energy funding has been shelved until after the November elections, Senate aides said today.

The "Gang of 20" was preparing legislation for a Senate energy debate slated for next week, but the group decided yesterday that election season is not the right time to offer legislation, said a spokesman for Sen. Kent Conrad (D-N.D.), one of the group's leaders.

"The thinking here is that the partisanship in Congress is stifling the debate we need to have on this. It is just too close to the presidential elections," said spokesman Chris Thorne. Instead, Thorne said, the group plans to release a "statement of understanding" next week and then push actual legislation at a later time.

The group outlined a plan almost two months ago that allowed four Southeastern states to "opt in" for drilling farther than 50 miles off the coast and also allowed drilling that far from Florida in the eastern Gulf of Mexico. The plan also included tens of billions of dollars in provisions on conservation, renewable energy, coal-to-liquids and nuclear power.

But its effort grew more complicated for several reasons.

The Senate is poised to pass broad bipartisan tax legislation next week that extends renewable project tax credits that the Gang of 20 had included in its plan. The Senate tax measure also uses some of the same revenue-raisers.

Also, Democrats have since appeared more open to concessions on offshore drilling, and it is unclear if drilling bans will be continued at all through the upcoming resolution to continue federal spending beyond the Sept. 30 end of the fiscal year (E&ENews PM, Sept. 17).

Thorne said the group has pared back the scope and costs of the bill, in part because of the energy tax legislation that is now on a faster track.

The revised plan, which group members eventually hope to introduce as a formal bill, will also contain more expansive offshore drilling than originally envisioned, he said.

Thorne said that despite the changes in course, the group remains committed to working together.

"We are not in danger of this falling apart," he said. "This is a group that is committed to comprehensive energy legislation. The question the group had to settle on was whether we are too close to the election for the kind of debate we need and agreement we need."

Senate Democratic leaders have been planning to hold votes next week on competing energy policy packages after moving the tax legislation. A spokesman for Majority Leader Harry Reid (D-Nev.) this morning said that plan has not changed.

However, some aides said they could envision the energy debate being squeezed or scrapped as lawmakers respond to the Wall Street financial meltdown. Treasury Secretary Henry Paulson is calling on Congress to act next week on a massive rescue package.

Interior Secretary Says He May Fire Gift-Takers

NYT, September 19, 2008; <http://www.nytimes.com/2008/09/19/business/19royalty.html?ref=business>

By BERNIE BECKER

WASHINGTON — Interior Secretary Dirk Kempthorne told a House committee Thursday that he might fire employees in the agency that collects oil and gas royalties, a week after the department's inspector general reported extensive ethics abuses there.

Mr. Kempthorne also said his department would follow all of the recommendations from the inspector general, Earl E. Devaney, to improve the Minerals Management Service, including enhanced oversight of the agency and a stronger ethics program.

"This process will be completed as swiftly as possible, and we will examine the full spectrum of disciplinary actions, including termination," Mr. Kempthorne said.

In three reports released last week, Mr. Devaney detailed what he called a "culture of ethical failure" that existed at the agency from 2002 to 2006, including high-ranking officials who defied procurement regulations and employees who had sexual relationships with and accepted gifts from oil company employees.

Mr. Devaney told the House Natural Resources Committee that the employees involved in the scandal "had a callous disregard for the ethical rules by which the rest of us are required to play," while Mr. Kempthorne called their actions inexcusable.

While there was no proof that oil companies had received any contracts because of their coziness with the agency, Mr. Devaney said he believed the government probably lost money because of the ethics abuses.

But both the secretary and inspector general stressed that they believed 99.9 percent of Interior Department employees were hard-working and ethical. Mr. Devaney said the atmosphere at the royalty agency now "is decidedly different."

Democrats on the committee criticized oil companies for not being more helpful in the investigation and wondered what was being done to discourage employees at the companies named in the investigation — Chevron, Shell, Hess and Gary-Williams Energy Corporation — from repeating the actions documented in the investigation.

Republicans at the hearing agreed that Mr. Devaney's findings were serious, but some also said a more pressing matter for the committee was the search for bipartisan solutions to the country's energy problems.

Under questioning from Representative Edward Markey, Democrat of Massachusetts, Mr. Devaney said his investigation had been delayed when employees from Chevron and a former Shell employee refused to testify.

He said it was possible that more employees of the Minerals Management Service could have been prosecuted if the oil company officials had cooperated, but said he also wished the Justice Department had been more aggressive itself.

Two former employees have already pleaded guilty to charges connected to the violation of the procurement standards. Mr. Devaney said he did not expect any further indictments.

Mr. Kempthorne said it could be assumed that the oil company officials who had offered gifts in the past would still be in regular contact with agency employees. He said that the department was stepping up its efforts to inform companies about the ethics rules surrounding gifts.

Still, Representative George Miller, Democrat of California, said he found it "disturbing that one half of the crime here just goes on and conducts business as if nothing happened."

Representative Steve Pearce, Republican of New Mexico, expressed dismay at the report's findings, saying they would be more appropriate in People magazine than in The Congressional Record.

But he also wondered whether the committee's "time wouldn't be better spent debating energy solutions."

The House passed a bill this week that would allow some offshore oil drilling and would encourage the development of renewable energy sources.

Pelosi's Drilling Ruse

WSJ, September 19, 2008; http://online.wsj.com/article/SB122178414427154783.html?mod=googlenews_wsj

The sudden pro-drilling makeover of the Pelosi Democrats has always had an air -- a gale, really -- of election-year convenience, and the House proved it Tuesday by passing an energy bill that would put any bunko man to shame. This confidence trick won't expand domestic oil-and-gas supplies even a bit.

The ruse began late Monday night, when Speaker Nancy Pelosi released a 290-page bill and then waved it through less than 24 hours later, 236-189. "Closed" rules prohibited the GOP from offering alternatives. The real game was to give vulnerable Democrats political cover by letting them vote for more offshore drilling -- while also making more drilling all but impossible, thus appeasing the party's green wing.

Sure enough, only 13 Democrats voted against the bill; even antidrilling purists like Ed Markey found something to like. Nearly all the members of the Blue Dog coalition, who had been on the cusp of revolt this summer because of Mrs. Pelosi's obstructionism, also fell in line. They now have their campaign cover story.

The bill would allow exploration on the Outer Continental Shelf, but only in waters 100 or more miles out in the Atlantic and Pacific. The farthest reaches of the OCS contain resources, but undersea geography and deep water make development very -- if not prohibitively -- expensive. Areas closer to land are far richer and easier to access. Conveniently, Mrs. Pelosi's bill imposes a 50-mile "buffer zone" around the country.

Coastal states could pass laws to allow drilling between 50 and 100 miles. However, the bill bars revenue sharing with adjacent states. Democrats know how important such a booster shot could be for state budgets, so they took away the incentive for states to opt in and approve new drilling. The bill also retains a leasing ban in the eastern Gulf of Mexico, which has the most immediate potential in the lower 48. Oil-and-gas reserves are known to be abundant, production systems are nearby in Texas and Louisiana, and even the Senate's paltry "gang of 10" proposal would liberate the Gulf.

Less shocking is that the bill orders up more than \$18 billion in pork for "renewable" energy -- and it comes with the works. There are the usual huge subsidies for wind and solar power, and even "marine renewables" (whale oil?). These are "paid for" by raising taxes on the major American oil companies, which would also be forced to retroactively "renegotiate" the terms of their late-1990s lease contracts in the Gulf of Mexico. If that wealth transfer isn't a big enough crutch for the alternatives, there's also a mandate that utilities generate 15% of their electricity from such sources by 2020. In other words, taxpayers get charged twice -- once to pay for Congress's green welfare program, and again when they pay their electric bill.

Then there's a tax credit of up to \$5,000 for anyone who buys a plug-in electric car, though normal drivers will still be able to fill up with "fuel from America's heartland," aka the fiasco known as corn ethanol. Congress may be strapped for dollars, but Members found a few million under the mattress to encourage commuters to bike to work or maybe take the "vanpool pilot program." Some \$10 million goes to "increasing sustainable low-income community development," while Fannie Mae and Freddie Mac are told to favor "energy-efficient mortgages."

As Congress runs down the clock for this term, the likelihood of reaching some grand pre-election energy bargain is vanishing fast. The House bill shows that the Pelosi Democrats simply aren't serious about expanding domestic energy supplies.

Drilling for subsidies

Washington Times, September 19, 2008; <http://washingtontimes.com/news/2008/sep/19/drilling-for-subsidies/>

Andrew Moylan

Many members of Congress spent a great deal of their five-week vacation twiddling their thumbs while Americans' calls for greater domestic energy production grew to a deafening roar. As a response, the House has passed a sham bill that won't quiet public concerns. Now, it's the Senate's turn, where some lawmakers have crafted a bipartisan solution called the "Gang of 10." Unfortunately, this too contains far more bad than good policies. Like shady used-car salesmen, the Gang is attempting to use extremely limited drilling as the bait for enactment of an enormous package of ever-higher taxes and subsidies.

Though it seems to promise some additional domestic production, the Gang's energy scheme (which now has 20 cosponsors, 10 Democrats and 10 Republicans) fails miserably to deliver on the will of two-thirds of Americans who want more petroleum exploration. Instead, it pays mere lip service to offshore drilling while rehashing the counterproductive policies of subsidizing politically favored industries and punishing others with tax hikes - ultimately raising prices for consumers.

The centerpiece of the proposal is an expansion of off-shore oil and gas drilling. That looks good on its face, but the reality doesn't live up to the hype. First, the bill only allows four states - Georgia, North Carolina, South Carolina, and Virginia - to opt in to greater energy exploration. For the rest of the country, it cements the now-temporary offshore drilling ban into statutory law. American energy resources in waters near states like California would be under permanent lock and key.

The plan also would open up additional areas of the eastern Gulf of Mexico for energy development, but nothing within a 50-mile "buffer zone" off the four states' shores, thereby blocking the cultivation of substantial resources. For example, the Minerals Management Service estimates that roughly 90 percent of California's offshore resources exist within that arbitrary 50-mile limit. When you add the numbers up, it's clear that the Gang's proposal is not even a half-hearted attempt at more drilling - it's a quarter-hearted attempt.

Behind the veil of token drilling, the Gang of 10 proposes piles of subsidies for so-called "alternative energy" programs, such as biofuels, further mandates for the use of "cleaner-burning vehicles" and punitive tax increases on domestic oil and gas companies precisely when America needs more production - not less.

The bill would cost an estimated \$84 billion, \$30 billion of which would be offset by tax increases on the oil and gas industry. A recent study by Fiscal Economics calculated that just one portion of those tax increases, repeal of a manufacturing deduction, could cost 637,000 Americans their jobs in the coming years. Meanwhile, the source of funding for the remaining \$54 billion has yet to be determined, but will likely take the form of tax increases elsewhere that will only further harm the American economy and family budgets.

The last thing Americans need in today's difficult economy is to suffer the burden of higher taxes. On closer examination, it becomes clear that the Gang of 10 proposal is merely a rehash of the same policies that have failed us so completely over the last 30 years - all with a little bit of window dressing in the form of drilling. To use a suddenly popular saying, it is an attempt to put lipstick on a pig and pass the result off as a beauty queen.

Instead of concocting ineffective political "compromises," a better course would be to repeal the domestic exploration ban now, in its entirety, and speed leasing efforts both on- and offshore. This method would actually promise substantial supplies down the road and would not perpetuate any of the tax-and-spend proposals that have wasted so many taxpayer dollars over the past several decades.

The consensus is growing across the country: Let's release our American energy resources from the shackles placed on them by Congress. Citizens and lawmakers alike should recognize this "compromise" for what it really is: the same old broken package wrapped up with a bipartisan bow.

Andrew Moylan is government affairs manager for the National Taxpayers Union.

Congress panel blasts Interior Department officials on oil royalties scandal

Los Angeles Times, September 19, 2008; <http://www.latimes.com/business/careers/work/la-na-interior19-2008sep19,0,7362048.story>

Interior Secretary Dirk Kempthorne testifies that he's outraged and disgusted by the behavior of program employees.

By Cynthia Dizikes

WASHINGTON — Legislators excoriated top Interior Department officials Thursday at a hearing on the sex, drugs and gifts scandal in the oil royalties program, saying the scandal could have dire ramifications for the anticipated expansion of offshore drilling along U.S. coasts.

The hearing before the House Committee on Natural Resources came a week after the department's inspector general, Earl E. Devaney, released three separate reports alleging that program employees helped to rig bids, accepted gifts from energy company officials, had sex with subordinates and industry contacts, and used illegal drugs, including marijuana and cocaine.

Also at issue was a Government Accountability Office investigation released last week, which found that because of decreased oversight and widespread inaccuracies in measurement, the Interior Department may not be collecting all the royalties owed by energy companies for the oil and natural gas they draw from federal property.

"These are serious issues," said committee Chairman Nick J. Rahall II (D-W. Va.). "But they are more serious now as we face the certain prospect that vast swaths of federal waters will become open to oil and gas leasing in the very near future."

Interior Secretary Dirk Kempthorne testified that he was outraged and disgusted with the actions of more than a dozen current and former employees. Two are being prosecuted, others transferred, he said, and an attorney will be appointed as an advisor to ensure ethics compliance.

He is also considering implementing a random drug-testing program, prohibiting all employees in the oil royalties division from receiving gifts and gratuities, and firing eight employees, he said.

The Interior Department collects more than \$8 billion a year in royalties from energy companies that lease federal land. That money represents the government's largest source of revenue other than taxes.

Devaney's reports are the latest to question the close relationship between the energy industry and the Minerals Management Service, the Interior Department agency that issues drilling leases to energy companies on taxpayer-owned land and then collects royalties from those leases.

The reports detailed "a culture of substance abuse and promiscuity" from 2002 to 2006 at a Denver-based division of the Minerals Management Service. That office deals specifically with royalty-in-kind payments of oil instead of cash.

At Thursday's hearing, Devaney called the employees' actions "egregious" but said: "I reiterate my belief that 99.9% of DOI employees are ethical, hard-working and well-intentioned.

"Unfortunately, the conduct of a few does cast a pall over the whole, at least for a time."

As for the energy company representatives who allegedly gave gifts to, and had sexual relationships with, the government employees, Devaney said he was "at a loss to explain" their behavior.

Federal employees cannot accept individual gifts worth over \$20 and can accept no more than \$50 worth of gifts each year.

Nine employees allegedly accepted drinks and meals, golf trips, snowboarding lessons, hotel rooms, and baseball and concert tickets. The four companies identified in the reports are Shell Oil Co., Hess Corp., Chevron Corp. and Gary-Williams Energy Corp.

Devaney, under rapid-fire questioning from Rep. George Miller (D-Martinez), said his investigators could show no explicit connection between the gifts and the manipulation of bidding. The contract files were in "terrible shape" and were basically unauditible, Devaney said.

Miller said, "I just find it kind of disturbing that one-half of the crime here just goes on and conducts business as if it -- as if nothing happened."

Industry representatives denied that gifts were exchanged for preferential treatment, the report said.

"We take ethics violations, or allegations of ethics violations, very seriously," Chevron spokesman Dave Samson said Thursday night. "When we first learned of these allegations we started looking into them immediately . . . but, in this case, it is not a systemic issue."

Hurricane Ike destroys 49 oil platforms in Gulf

Associated Press, September 18, 2008;

http://ap.google.com/article/ALeqM5iegCzko2qT3cUfD_XPxPGVOVMwgD939CvL80

By H. JOSEF HEBERT

WASHINGTON (AP) — At least 49 offshore oil platforms, all with production of less than 1,000 barrels a day, were destroyed by Hurricane Ike as it raced across the Gulf of Mexico, and some may not be rebuilt, the Interior Department said Thursday.

It said in the latest hurricane damage assessment that the platforms altogether accounted for 13,000 barrels of oil and 84 million cubic feet of natural gas a day. There are more than 3,800 production platforms in the Gulf producing 1.3 million barrels of oil and 7 billion cubic feet of gas each day.

Most remain shut down.

The report by Interior's Minerals Management Service said the agency was conducting helicopter flyovers of the Gulf waters to investigate unconfirmed reports of oil spills and oil sheens, but that it was too early to issue any definitive findings.

"There are no reports of oil impacting the shoreline or affecting birds and wildlife from releases in the Gulf of Mexico federal waters," said the agency.

The agency also said five gas transmission pipeline systems sustained damage, although the extent of damage is not yet known. It earlier had reported four oil drilling rigs had been destroyed and another damaged.

Meanwhile, the Energy Department reported that as of midafternoon Thursday, 12 of 31 refineries in Texas and Louisiana, with a total production capacity of 3 million barrels a day, remained shut down as a result of the hurricane that swept through the region on Sept. 13. A number of the others are operating at reduced runs.

More than 2.3 million electricity customers in six states as far away as Pennsylvania remain without power as a result of the hurricane and its aftermath of heavy rain, said the department. Of those, 1.6 million customers are in Texas.

Other states affected are Louisiana (18,804 customers), Kentucky (167,740), Indiana (36,800), Ohio (488,900) and Pennsylvania (16,730), according to the department.

About 93 percent of the Gulf's crude oil production remains shut down as does 77.6 percent of its natural gas production, said the Minerals Management Service.

The Energy Department said 10 of 39 natural gas processing facilities also were still closed as a result of the Hurricane Ike and Hurricane Gustav which hit two weeks earlier, giving the Gulf's energy infrastructure a glancing blow.

The Gulf region accounts for 25 percent of the country's domestic oil production, or about 1.3 million barrels a day, and 15 percent of its natural gas supplies, or about 7 billion cubic feet of gas a day.

Democrats may leave bans off spending bill

CQ Today, September 18, 2008; <http://www.eenews.net/EEDaily/2008/09/18/3/>

Ben Geman

Democrats may not include longstanding offshore oil and gas drilling bans in the upcoming bill to fund the federal government beyond the Sept. 30 end of the fiscal year, several Senate Democrats said yesterday.

Republicans are pushing to lift the bans, which are renewed annually through the appropriations process.

"I just don't hear it is going to be in there," said Sen. Ben Nelson (D-Neb.), while Sen. Dianne Feinstein (D-Calif.) also said she did not believe the coastal bans -- which she supports -- would be included by leadership in the spending bill.

"I would doubt we could get consent," added Sen. Robert Menendez (D-N.J.).

Decisions about whether to try and include the bans -- or some version of them -- in the continuing resolution (CR) may be influenced by last-minute efforts to craft an energy bill before the targeted adjournment later this month.

Majority Leader Harry Reid (D-Nev.) said it was not clear whether the bans would be added. He then cited plans to have votes on competing energy packages that address oil and gas drilling in varying ways next week. Democratic leaders have reluctantly called for more limited expansions of offshore production in response to heavy pressure on the issue.

"We will have to wait and see," said Sen. Charles Schumer (D-N.Y.), a member of the Democratic leadership team, about including the leasing bans in the CR.

"Everyone is just sort of watching what all the other factions are doing and waiting to see who does what, and reacting appropriately," a Democratic aide said.

In the House, top Democrats have signaled they may also lack the votes to push through continued bans on the CR. In touting the Democratic energy bill that passed the House earlier this week, House Speaker Nancy Pelosi (D-Calif.) said a reason to approve it was because otherwise the bans would be lifted completely Sept. 30.

The House-approved bill allows drilling greater than 100 miles off the Atlantic and Pacific coasts, and within 50-100 miles if states allow it. It also includes a suite of renewable energy and conservation provisions.

However, even if the bans were to lapse Sept. 30 with no last-minute congressional drilling deal to replace them, there would hardly be drilling overnight. Leasing and development is a years-long process, and new leasing decisions would likely fall to the new administration.

Also, the CR may not extend into the new year if Congress winds up returning for a lame-duck session, prompting another round of decisions over a subsequent spending bill that would likely be influenced by the presidential and congressional election results. Sen. John McCain (R-Ariz.), the GOP White House nominee, wants to dismantle the leasing bans and has made it a major campaign theme.

Drilling bans cover the Atlantic and Pacific coasts and much of the eastern Gulf of Mexico. Congress began imposing the first of the various coastal drilling bans, which are renewed annually in Interior Department spending bills, in the early 1980s. President Bush lifted overlapping executive-level leasing bans over the summer.

Leasing is currently banned in the eastern Gulf of Mexico within 125 miles of Florida until 2022. That extended ban was part of a 2006 law that opened more than 8 million acres of the gulf acreage to new leasing.

Reid files for cloture on proceeding to tax extenders

Reid yesterday filed for cloture on proceeding to a package of renewable energy tax credit extensions, and votes could occur on the bipartisan deal as soon as today, although timing is not clear.

The deal extends a suite of credits for wind and solar power projects and also includes incentives for advanced coal projects, buying plug-in vehicles, and many other provisions (E&ENews PM, Sept. 17).

Gang of 20 continues seeking agreement

A bipartisan Senate group seeking an energy policy compromise in the waning days of the Congress is still trying to reach an agreement among themselves on how to proceed.

Members of the Gang of 20 met again yesterday and plan to circulate their most recent proposals around today, lawmakers and aides said. They are trying to craft a proposal that blends wider drilling with new investment in alternative energy, conservation, and removal of some oil industry subsidies.

Nelson, a member of the group, said there are "very few" sticking points, while Sen. John Thune (R-S.D.) was more circumspect. "There is some movement, but it is a heavy lift to try and get 20 people to come together, especially when the ground is shifting," he said. "It is still fluid."

The group is struggling to craft a compromise deal in a shifting congressional landscape, and it remains unclear if they will actually introduce a bill (E&ENews PM, Sept. 17).

Administration rips Democrats' energy bill as waste of time

CNN, September 18, 2008; <http://www.cnn.com/2008/POLITICS/09/17/white.house.energy/>

Elaine Quijano, Ted Barrett and Deirdre Walsh contributed to this report.

WASHINGTON (CNN) -- The White House slammed an energy bill that the House of Representatives passed Tuesday night, calling it a waste of time.

The administration accused House Democrats of lacing the bill with "poison pills" that demonstrate a "lack of seriousness about expanding access to the vast domestic energy resources" off U.S. coasts.

President Bush and Democrats have been tangling for months over drilling offshore in an area known as the outer continental shelf, which had been placed off-limits both by Congress and executive order for decades. Bush lifted the executive order this summer as oil prices shot up and gas prices reached record levels at the pump.

He called on Congress to lift its ban but expressed "strong opposition" to the bill passed Tuesday. Learn about the current offshore drilling ban »

The House bill passed by a vote of 236-189. After months of resisting pressure to allow oil and gas exploration off America's coasts, the Democrats yielded and included provisions to allow more offshore drilling. Watch why the Republicans object to the bill »

But the legislation includes a number of provisions Republicans do not like, including a repeal of tax cuts for the oil industry and a lack of incentive for states to allow drilling off their shores.

"Many of the other provisions contained in this bill are taken from other House bills that failed to pass through the Congress, or have been subject to veto threats," the Executive Office of the President said in a statement Tuesday night as the House voted on the bill, officially known as House Resolution 6899.

"If H.R. 6899 were presented to the president, his senior advisers would recommend that he veto the bill," the White House said.

Bush may never have the chance. The Senate is unlikely to take up an energy bill before next week, and it is unclear whether there is enough time left in this Congress for the two houses to hammer out a mutually acceptable compromise to send to the president.

Fifteen Republicans crossed the aisle to support the bill Tuesday. Thirteen Democrats voted against it.

The bill would allow drilling between 50 and 100 miles offshore, as opposed to the 3-mile line favored by Republicans. It would require states to give their permission for drilling off their shores. It also would include incentives for renewables, require the government to release oil from its emergency reserve and force oil companies to drill on federal areas they already lease from the government.

House Speaker Nancy Pelosi, D-California, told reporters Tuesday: "The American taxpayers have been ripped off for years on offshore drilling. This bill changes that."

She contrasted "the status quo, which is preferred by Big Oil" and the Bush administration, with "change for the future to take our country in a new direction."

She insisted that Republicans "must set aside their drill-only mentality."

Rep. Mike Pence, R-Indiana, said before the vote that the Democratic bill was "a charade," denying it would do what its backers claim.

"This is not 'yes' to drilling. This is 'yes, but,' " he argued.

"This is 'yes, but no drilling in Alaska, no drilling in the Eastern Gulf, no drilling inside 50 miles.' This is 'yes, but no litigation reform that will prevent radical environmental attorneys from tying up leases even before a single shovel of dirt is turned.' "

Republicans See Electoral Hopes in Democrats' Shift on Offshore Drilling

CQ Today, September 17, 2008;

<http://www.cq.com/document/display.do;jsessionid=52D769AE538457FA2CC90957A0CCBC23.monhegan?matchId=65389491>

By Edward Epstein

Republicans lost this week's House energy votes, but they came away smiling and confident they still have the Democrats on the run.

GOP congressional candidates plan to drive home a message during the final weeks of the campaign season that Democrats advocate a "no energy" energy policy.

"We just have to talk until we're blue in the face," said Mike Pence, R-Ind., who helped organize the GOP's rump sessions on the House floor that hammered Speaker Nancy Pelosi and the Democrats during the August recess for not acting on legislation to expand offshore oil and gas exploration. "My strong feeling is that people will catch on."

Democrats, still confident they will gain House and Senate seats on Nov. 4, plan to counter by linking Republicans to big oil companies in voters' minds. They dismiss the GOP's emphasis on offshore drilling as a paltry response to higher energy prices.

Outside analysts said that while the energy issue holds some potential for Republicans, it has lost some of its wallop, as world oil prices have skidded from over \$140 a barrel to under \$100. Public attention has been drawn to other issues, particularly the multibillion-dollar bailouts in the financial industry.

House Minority Leader John A. Boehner said the bill (HR 6899) that Pelosi, D-Calif., brought to the floor this week was a response to the Republicans' success this summer in tapping into public anger over energy prices. The Ohio Republican said Pelosi had to change her long-held opposition to additional offshore drilling when some Democrats' re-election prospects worsened.

"Democrats proved once and for all that today's debate was about nothing more than providing political cover for vulnerable Democrats on the eve of an election," Boehner said after the House passed the Democratic bill, 236-189.

Public-opinion polls conducted during the summer showed that Boehner had some reason to feel he had found an issue to improve his party's own previously gloomy election prospects. Several surveys showed that the public wanted more offshore drilling. The ABC News/Washington Post poll conducted Sept. 5-8 found that 45 percent of those surveyed considered Democratic presidential candidate Sen. Barack Obama of Illinois a better choice to handle the energy issue, compared to 43 percent who said they would prefer Republican Sen. John McCain of Arizona. In a similar poll in June, Obama's advantage on that issue had been 51 percent to 36 percent.

"I think gasoline prices are still a huge issue," said House Minority Whip Roy Blunt, R-Mo. "When you get outside of Washington and New York and talk to people, their focus is still on energy, that they are paying lots more for gasoline and utilities."

Spotlight Shifts Away From Energy

But the GOP's hopes are illusory, according to University of Virginia political scientist Larry Sabato. "The Republicans think energy is their silver bullet. But here's the problem," Sabato said. "The public's concerns about the economy are far broader, and these other aspects are now taking center stage."

Those economic concerns — suddenly exacerbated by the federal takeovers of the giant insurer American International Group and the Fannie Mae and Freddie Mac mortgage companies — are ominous for Republicans, Sabato said. "The public senses that energy is part of one giant economic disaster, and they always blame the incumbent president and his party."

Democrats contend that the House-passed energy bill, coupled with dropping oil prices, gives them something good to talk to voters about.

"If prices are stable or go down, it'll be an issue for Democrats because they can say we responded to the public's concerns," said Rep. Gene Green, D-Texas, an author of the party's energy legislation. "But the bigger issue will be the broader economy."

In a preview of the talking points Democrats may be taking home with them, Pelosi scorned the Republicans' energy politics as a continuation of the Bush administration's affinity for the oil industry. "Republicans want to do their dance of Big Oil on the floor over and over again," she said.

In bringing up an energy bill written after protracted negotiations in her diverse caucus between pro-drilling members and anti-drilling environmentalists, Pelosi seemed to be putting down a marker for the fall campaign and responding to GOP pressure that had changed the political equation on energy.

The Speaker and the Democrats endorsed a limited expansion of offshore drilling in response to President Bush's decision to scrap the federal offshore moratorium as of Sept. 30.

The moratorium's fate will ultimately be decided in the continuing spending resolution for fiscal 2009 that Congress is expected to clear before its pre-election adjournment.

Coastal State Republicans Balk at Drilling

CQ Today, September 17, 2008;

<http://www.cq.com/document/display.do;jsessionid=357FAD43D3415A65A3926E15EE537828.upolu?matchId=65387377>

By Catharine Richert and Avery Palmer

The prospect that the moratorium on most new offshore drilling may lapse on Oct. 1 is good news to many Republicans, but it puts GOP senators from coastal states in a delicate position.

Like most Republicans, the senators from states such as Virginia, the Carolinas and Georgia support opening more of the outer continental shelf to oil and gas drilling and have been central players in negotiations aimed at writing compromise legislation.

They are not necessarily keen, however, about seeing drilling rigs just three miles off the sandy beaches that attract droves of tourists to their states, a scenario that would be possible if the moratorium is simply ended.

"That's what we're all talking about," said South Carolina Republican Lindsey Graham, whose state is home to Hilton Head Island. "What do you do to fill the vacuum?"

Graham is among a bipartisan "Gang of 20" that has been trying to write a compromise energy bill that can pass in the Senate. Republican members of the gang have been under pressure from conservative talk show hosts and bloggers to avoid any compromise that would surrender an important election issue to Democrats.

That pressure has intensified as Democratic congressional leaders acknowledge they cannot pass a resolution to continue funding the government in the new fiscal year if the 26-year ban on most new offshore drilling is left intact. Some of the leaders of the Republican drive to lift drilling restrictions held a rally Wednesday at which they called on Congress to "do nothing" and let the moratorium lapse.

"Oct. 1 could be one of the great days in the history of this country," said House Minority Whip Roy Blunt, R-Mo.

With House passage this week of a bill (HR 6899) that would give states the option of allowing drilling at least 50 miles offshore, the Senate will determine whether legislation that would preserve some offshore-drilling restrictions is possible before Congress recesses.

"Hopefully, the House laid down the marker, and the Senate can do theirs and then put that in as the compromise instead of the moratorium," said Rep. Gene Green, D-Texas, a drilling advocate who was cosponsor of the House-passed bill.

Senate debate on energy legislation could begin as early as next week, according to Majority Leader Harry Reid, D-Nev.

His first order of business will be a package of renewable-energy incentives and tax extenders, which includes \$800 million in new clean-energy bonds and an extension of a 30 percent investment tax credit for solar-energy property and some fuel cell property through 2016, among other things.

After that, Reid is expected to call up the House-passed energy bill, and the chamber will vote to add three other energy-related measures to the bill, including a Republican drilling plan, a Democratic drilling plan and the bipartisan measure.

"It will give people three or four opportunities to vote for drilling," Reid said.

'Gang' on the Ropes

The prospect of dissolving the moratorium complicates work for the bipartisan "gang."

"There are a lot of Republicans who say, 'Get the tax extenders passed, lift the ban, declare victory and go home,'" said Sen. John Thune, R-S.D., a member of the group.

Indeed, the gang itself is showing some cracks this week, as some members argue over the cost of their still-to-be-unveiled proposal, while others press for more aggressive drilling.

Lawmakers who want more drilling shouldn't be too optimistic about lifting the ban, Thune said. If Democrat Barack Obama is elected president, he could impose an executive moratorium on drilling. And the next Congress could revisit the question of offshore drilling restrictions.

"I don't think it gives a lot of reassurance to those who want a real energy policy," he said.

Nick J. Rahall II, D-W. Va., chairman of the House Natural Resources Committee, said lifting the moratorium will not allow oil companies to start drilling at will, because the leasing process contains "built-in environmental safeguards."

"Unlike what [the Republicans] may lead us to believe, lifting the moratoria does not immediately mean there's going to be drilling and certainly no immediate relief at the pump for taxpayers," Rahall said.

With all three Senate bills still being drafted, a number of ideas for protecting coastal states while allowing some expansion of drilling are kicking around.

One solution may be to prevent drilling within sight of land, said Sen. Richard M. Burr, R-N.C., whose state includes the beaches of the Outer Banks. Other proposals are more specific, such as the 50-mile buffer in the House bill.

Another contentious issue is the question of revenue-sharing. The House bill does not share money earned from offshore production with coastal states, something that Gulf states now enjoy.

Sen. Mary L. Landrieu, D-La., led the fight to secure revenue-sharing for the Gulf states and has said any drilling bill that does not provide similar aid to coastal states will be dead on arrival.

That puts Landrieu at odds with Jeff Bingaman, D-N.M., the Energy and Natural Resources Committee chairman who is writing the Senate Democrats' energy proposal and opposes revenue-sharing.

"He hasn't changed his position on the fact that he doesn't believe that five states should have the funds," said spokesman David Marks. "It belongs to 50 states."

Senate 'Gang of 20' looks to 'fish or cut bait' on bill

E&E, September 17, 2008; <http://www.eenews.net/eenewspm/2008/09/17/1/>

Ben Geman

A bipartisan Senate group trying to bridge divisions on offshore oil and gas drilling and other matters is struggling to complete its own plan in a changed congressional landscape, several members said today.

The "Gang of 20" (originally the "Gang of 10") has yet to unveil a long-awaited bill that combines expanded outer continental shelf leasing with extension of renewable energy incentives and other alternative energy and conservation provisions.

Another meeting is scheduled for tonight as the Senate prepares for an energy policy debate that is likely to take place next week. "We are right now in the final stages of reaching the final decisions," said Sen. John Thune (R-S.D.). "If we can get 20 people to come together and agree, there will be [a bill], and if we can't, there won't," he said. "It is kind of fish-or-cut-bait time."

A new Senate agreement on tax policy legislation and a wave of recent offshore drilling proposals have changed the equation, senators said. "We are attempting to adjust ... to reflect the current dynamic, and we will find out later today if we can reach agreement," said Sen. Kent Conrad (D-N.D.), a leader of the group.

"There definitely is a belief that we are victims of our own success. We have so successfully redefined the debate on drilling that now our proposal is going to have to be a bit more expansive to be able to garner the votes that are necessary," Thune said.

The gang's original outline, first unveiled before the August recess, allowed four Southeastern states to "opt in" to drilling farther than 50 miles off the Atlantic Coast, and also allowed drilling that far from shore in the eastern Gulf of Mexico.

But the House yesterday passed a Democratic bill that relaxes drilling bans along the entire Atlantic and Pacific coasts, removing the bans outright farther than 100 miles from shore and allowing states to opt in to leasing at 50-100 miles. The House plan does not change current eastern gulf limits.

"We don't want to be to the left of Nancy Pelosi," Thune said.

Senate Energy and Natural Resources Chairman Jeff Bingaman (D-N.M.) is preparing a policy package including wider drilling that Democratic leaders plan to offer in the upcoming energy debate.

Also, it is unclear if drilling bans will be continued at all through the upcoming resolution to continue federal spending beyond the Sept. 30 end of the fiscal year.

"I think everybody agrees that based upon the current landscape, it makes sense to open up more areas," Thune said. "You are not going to get any Republicans to vote for a bill that appears, at least on the surface, to be less pro-drilling than what the Democrats are putting forward."

"Things have changed so much," added Sen. Lindsey Graham (R-S.C.). "We are looking at other drilling proposals to make ours as relevant as possible."

Senate tax deal complicates effort

Members said their work has become more complex because the Senate appears to have reached a separate tax policy deal that includes some of the same incentives and offsets as the Gang of 20 plan.

Senate votes on extension of renewable energy tax credits and other business and personal tax credits are expected as soon as this week.

"That has changed the politics. You have taken some of the things that we have used as offsets, putting them in the tax extenders package, and quite frankly has taken the pressure off some people to vote for our bill," Graham said. "We are just trying to figure all this out."

Conrad said the emerging Senate tax policy agreement relies on some of the same pay-fors the group planned to use to offset the costs of its plan's various renewable energy and conservation programs. "It obviously requires us to re-jigger in order to have a package that adds up, and that has made it significantly more challenging," he said.

The Gang of 20 plan extends renewable energy tax credits and pours new money into programs that help wean autos off petroleum-based fuels, among other alternative energy and conservation measures.

Offshore drilling up to Senate after House passage

Associated Press, September 17, 2008;

<http://ap.google.com/article/ALeqM5gB6bi0EyTozdEPy0KGisTQNaS2PQD938ASM00>

By H. JOSEF HEBERT

WASHINGTON (AP) — Offshore oil drilling, which has dominated energy debates in the presidential campaign, is now coming to the Senate.

The House late Tuesday approved on a 236-189 vote legislation that would open waters 50 miles off the Pacific and Atlantic coasts to oil and natural gas development — if the adjacent states agree to go along.

The legislation now goes to the Senate, where Democratic leaders are expected to mold it to their liking in the next few days.

So far, the Senate has indicated it has no intention of going as far as the House in expanding offshore oil and gas drilling beyond the western Gulf of Mexico, where energy companies have been pumping oil and gas for decades.

At least two proposals being crafted in the Senate would allow drilling in some areas along the southern Atlantic from Virginia to Georgia. But the Pacific and remainder of the Atlantic seaboard would not be affected.

Senate Majority Leader Harry Reid, D-Nev., also has said he would make way for a vote on a broader Republican drilling proposal that would allow states to opt for offshore exploration from New England to the Pacific Northwest and share in the royalties that are collected.

Congress has renewed bans on drilling off the Atlantic and Pacific coasts and the eastern Gulf of Mexico off Florida annually for the past 26 years.

But expanded offshore drilling has become a mantra of GOP energy policy that has been felt in both presidential and congressional campaigns, even though lifting the drilling ban would have little if any impact on gasoline prices or produce any more oil for years.

Republican presidential nominee John McCain vowed at the recently concluded GOP convention to push for new offshore oil and natural gas drilling as delegates chanted "drill, baby, drill." His Democratic rival, Barack Obama, also has said he supports more drilling as part of a broader energy package.

But in the Senate the issue of drilling remains divisive.

No matter what the proposal, it is expected to face a filibuster and no one has yet to predict with certainty that any drilling bill will garner the 60 votes needed to overcome such a roadblock.

The drilling measure passed late Tuesday in a largely party-line vote by the House is unlikely to survive the Senate.

President Bush, who has called for ending the offshore drilling bans, signaled he would veto the legislation if it reached his desk, arguing that it would stifle offshore oil development instead of increasing it.

House Speaker Nancy Pelosi, D-Calif., called the bill "a new direction in energy policy ... that will end our dependence on foreign oil" by shifting federal subsidies from promoting the oil industry to spurring development of alternative energy sources and energy efficiency.

The House measure would allow drilling in waters 50 miles from shore almost everywhere from New England to Washington state as long as a state agrees to go along with energy development off its coast. Beyond 100 miles, no state approval would be required. The drilling ban would remain in the eastern Gulf of Mexico.

But Republicans called the drilling measure a ruse to provide political cover to Democrats feeling pressure to support more drilling at a time of high gasoline prices.

"How much new drilling do we get out of this bill? It's zero. Just zero," declared House Republican leader John Boehner of Ohio. "It's a hoax on the American people. This is intended for one reason ... so the Democrats can say we voted on energy."

The bill would not share royalties from energy production with the adjacent states, which Republicans said would keep states from accepting any new drilling off their beaches. Republicans also cited Interior Department estimates that 88 percent of the 18 billion barrels of oil believed to be in waters now under drilling bans would remain off-limits because they are within the 50-mile protective coastal buffer.

The House-passed bill calls for rolling back nearly \$18 billion in tax breaks over 10 years for the five largest oil companies and using the revenue for tax incentives to help commercialize alternative energy such as solar, wind and biomass, and programs that foster energy efficiency.

The bill also would require the president to make available oil from the government's Strategic Petroleum Reserve. Pelosi said such a move is needed to drive down gasoline prices, although oil prices have dropped dramatically in recent weeks and many energy experts believe gasoline prices will fall as well after refineries recover from Hurricane Ike.

Democrats added a provision at the last minute that makes it a federal crime for oil companies with federal leases to provide gifts to government employees, a response to a recent sex and drug scandal involving the federal office that oversees the offshore oil royalty program and energy company employees.

The House bill also would:

_Provide tax credits for wind and solar energy industries, the development of cellulose ethanol and other biofuels.

_Require utilities nationwide to generate 15 percent of their electricity from solar, wind or other alternative energy sources.

_Give tax breaks for new energy efficiency programs, including the use of improved building codes, and for companies that promote their employees' use of bicycles for commuting.

House Passes Bill To Expand Drilling, Fund Renewables

Washington Post, September 17, 2008; <http://www.washingtonpost.com/wp-dyn/content/article/2008/09/16/AR2008091601216.html>

Republicans Say Measure Isn't Enough

By Paul Kane

The House approved a package of energy initiatives yesterday, including measures that would allow oil drilling as close as 50 miles off the Atlantic and Pacific coasts and finance the long-term development of alternative energy sources.

In the first substantive votes since gasoline prices rose above \$4 a gallon this summer, the House divided largely along party lines, 236 to 189, with most Republicans rejecting the Democratic-sponsored legislation because it would prohibit exploration of much of the known oil reserves closer to the coasts and in the Gulf of Mexico.

As they reversed their long-held opposition to more offshore oil exploration, Democrats said the increased taxes on oil companies in the bill and the collection of royalty payments from the drilling would yield billions of dollars to help finance the development of cleaner, renewable energy sources.

"We're not trying to give incentives to drill, we're giving incentives to invest in renewables and natural gas that will take us where we need to go," House Speaker Nancy Pelosi (Calif.) told reporters before the vote.

The legislation now moves to the Senate, where it will compete with three alternative proposals, each of which faces a difficult road to securing the 60 votes needed for passage.

If Congress does not act on the measures by Sept. 30, the current ban on offshore oil drilling will expire, and exploration will be allowed as close as three miles off all U.S. coastlines. In July, President Bush lifted an executive order that had blocked drilling on the outer continental shelf.

Yesterday's action came two months after the average price of gas peaked at more than \$4.10 a gallon, prompting Republicans to make offshore drilling one of their central political planks as they headed into the party conventions and the fall elections. But as Democrats buckled under the political pressure for more drilling and began assembling the legislation, oil prices began falling. The cost of a barrel of oil has dropped about \$55, or about a third, from its peak this summer.

The unexpected boon of falling oil prices did little to change the tenor of the political debate yesterday. Pelosi brushed aside suggestions that lower prices would discourage more domestic drilling, in turn reducing the amount of money available for renewable resources.

"I think once you go past \$35 a barrel, there's incentive for them to drill. It's not just about the drilling revenues, it's about ending the subsidies" and securing greater royalties, she said.

Republicans vowed to continue their push right up to Election Day for a more expansive drilling program and more funding for nuclear power, which was not included in the Pelosi bill.

"The American people understand that we need an 'all of the above' approach to securing our energy future -- including drilling offshore, nuclear power, conservation and renewable energy," said Brian Rogers, spokesman for Sen. John McCain's presidential campaign.

Sen. Richard Burr (R-N.C.), a McCain supporter who favors more drilling, said the summer price spike was such a shock to consumers that they will demand increased domestic production to protect against future run-ups.

"The impact was so great this time, the American people said, 'Enough's enough, let's take back control,' " Burr said.

The legislation calls for drilling 100 miles off the Atlantic and Pacific coasts, or beyond 50 miles if governors and state legislatures approve. It would repeal tax breaks given to major oil companies in a 2004 bill and would force companies to pay for leases given to them in the late 1990s for drilling in the Gulf of Mexico, a move that has saved them \$15 billion over the past decade, according to Democratic estimates.

The bill requires 10 percent of the Strategic Petroleum Reserve to be released into the marketplace and increases funding for home-heating assistance for the poor.

One piece of the legislation was added this week when Democrats agreed to allow new exploration of oil shale in the Mountain West if states agree to it.

Republicans and some industry experts contend that little new energy production would result from the legislation, because federal studies have shown that more than 85 percent of known offshore oil reserves are inside the 50-mile mark.

The bill would not allow the sharing of royalties from leases with states, something that could decrease the incentive for state governments to allow drilling closer to their coasts. Pelosi indicated some willingness yesterday to consider a compromise on that issue.

Calling the process "rigged," House Minority Leader John A. Boehner (R-Ohio) protested the less-than-24-hour period between the legislation's unveiling and yesterday's vote, during which Republicans could not offer amendments.

"The bill that's coming to the floor is nothing more than a hoax on the American people, and they will not buy it," Boehner said.

Enviro groups still struggling with message, tactics in oil drilling debate

E&E, September 17, 2008; <http://www.eenews.net/EEDaily/2008/09/17/2>

Alex Kaplun

In a political climate where even its allies have embraced industry-friendly positions such as offshore drilling, environmentalists are scrambling to find a message that will resonate with the public and carve out their place in a debate that thus far has been fought largely on Republican turf.

There is little doubt, observers say, that the movement of various Democratic leaders toward at least tepid support for offshore drilling has put environmental groups in the awkward position of having some of its closest allies in the halls of Congress backing legislation that the groups have spent years fighting.

At the same time, poll after poll has shown that that the general pro-drilling position has strong public support, complicating the efforts of advocacy groups to push back against such efforts.

"The environmental community has had its head in the sand when it comes to reality," said Joseph Romm, senior fellow at the Center for American Progress and a Clinton-era energy official. "They've been slow to realize that they lost the coastal drilling debate."

As such, many environmental groups stayed on the sidelines as the debate over drilling dominated the debate on Capitol Hill this summer, with many organizations choosing not to take sides on legislation or being particularly aggressive in media advertising and voter outreach to counter the Republican message.

Officials from some major environmental groups admitted this week that they are not crazy about Democratic efforts to open more coastal areas to offshore drilling. And a select few have even taken a step that would have been virtually unthinkable just a few months ago -- openly opposing a major energy bill crafted by the House Democratic leadership.

"The debate that Americans have been hearing over the summer has been whether or not to drill, which has been a complete distraction over the issue at hand," Frances Beinecke, president of the Natural Resources Defense Council, said yesterday. "This is really political theater that's going on, this is really playing on the fear of the public."

NRDC later in the day formally came out in opposition to the Democrats' bill, H.R. 6899.

At the same time, environmentalists intend to use yesterday's vote as a vehicle for their message going forward, focusing largely on the Republicans based upon the GOP's opposition to the very same Democratic energy bill that they too oppose.

Specifically, the groups are promising that they will paint those who voted against the Democrats' bill as being only interested in protecting the major oil companies. "I think the vote will actually be real instructive and a real important part of that narrative and how the story evolves," said Stephen Kretzmann, executive director of the advocacy group OilChange USA.

The Sierra Club, for instance, supported the bill but made clear to say it "isn't perfect" and then criticized Republicans for calling for more offshore drilling. "Now they are maneuvering to undermine this compromise energy bill, demanding more coastal waters and more public lands be opened for drilling," said Athan Manuel, the Sierra Club's public lands director, in a statement.

Taking the longer view, many environmentalists say they are not particularly bothered by the shift of Democrats such as presidential nominee Sen. Barack Obama and House Speaker Nancy Pelosi toward offshore drilling, saying they view it as a necessary part of politics headed into the November elections.

"I'd love to see a pure position ... but I also understand that the people running for office need to be responsive to the polls and responsive to the public," said Bill Becker, executive director of the Presidential Climate Action Project. "I can understand a trade-off that's a legitimate trade-off where we're getting good concession on clean energy in exchange for a little bit more drilling."

But some say one of the main reasons that major environmental groups have not been active in the recent energy debate is precisely because they have been historically unwilling to support those kinds of compromises.

"If you're an advocate for an issue and you think that issue is really important, surely you're thinking that at some place down the line you're going to have to strike a deal," said Bill Chaloupka, a Colorado State University professor and a frequent writer about environmental politics. "I think awareness of that has been really thin."

Prepared for a national fight?

The debate over offshore drilling, critics say, has exposed a fundamental flaw in the mainstream environmental community -- namely that it was ill-prepared for a national political fight where its issue registered as the top priority for the majority of voters, particularly in a climate where much of the public lined up against them.

Indeed, the recent history of environmental issues has been that while voters generally side with environmentalists on a wide range of issue, they also place relatively far down on their list of political priorities. And at the same time, until recently, many of their legislative battles have been fought outside the media spotlight -- on legislation that did not draw much public attention or directly involve many members of Congress.

But \$4 gas quickly turned that situation on its head this summer. Fueled by an aggressive campaign by prominent Republicans such as presidential candidate Sen. John McCain and former House Speaker Newt Gingrich, polls showed the public both viewed energy policy as their top priority and lined up distinctly against the environmentalists' position.

"Environmental groups by and large in the U.S. have lived by the assumption that their issues are always going to be second-tier for everyone except for them," said Chaloupka, who has often criticized Washington-based environmental organizations. "On occasion, there has been a lack of strategic thinking about how you get these issues to the forefront or what you're going to do when you get it there."

While environmentalists have certainly had some legislative success operating in such a fashion, Chaloupka said, he also argued that it created an environment where it became relatively easy for many politicians to run away from the environmental groups when faced with other political pressures.

"In the long run, environmental issues have gotten a lot of public support but with very low salience," he said. "If you're a low-salience issue, people in general are going to run away from you if they perceive a reason to do so."

Chaloupka and others said that is particularly true in a climate when public opinion shifted quickly against the groups and where some kind of compromise might have been the best way to deal with the issue politically.

"It's taken a lot of people by surprise by how the Gingrich message of 'drill here, drill now' has picked up so much support nationally," Kretzmann said.

Some environmentalists openly admit that they were somewhat surprised by the effectiveness of the GOP message, but at the same time they continue to express confidence that the public is essentially on their side -- preferring the development of alternative energy.

"We're confident that those in favor of clean energy solutions ... will prevail in the end," said League of Conservation Voters President Gene Karpinski.

Campaign trail politics

The Democratic Party's shift on energy has not only complicated the environmentalists' message on Capitol Hill, but on the campaign trail as well.

Several lawmakers who have long been viewed as close allies of the environmental community have joined the ranks of lawmakers that have shifted toward more pro-drilling positions.

Two notable examples: Reps. Tom Udall (D-N.M.) and Mark Udall (D-Colo.). Both are running for seats in the Senate and during their time in the House not only supported typically "green" positions but were among the leading advocates.

Now both have run television advertisements that peg offshore drilling as one of the solutions to the energy crisis. Both also voted yesterday for the Democrats' energy bill.

At the same time, even some of the most heated Senate and House races in the country have yet to see a substantial amount of media advertising from environmentalists. Some lawmakers have even publicly complained that in the early days of the recent drilling fight, they did not receive enough support from environmentalists.

"I think to some extent it is a duck-and-cover operation and perhaps a realization that their message was one that only a quarter or less of the general public agreed with, so why advertise a flawed position to 75 percent of the general public," said Brian Kennedy, spokesman for the industry group Institute for Energy Research and a former aide to House Minority Leader John Boehner (R-Ohio) and former Resources Chairman Richard Pombo (R-Calif.).

Environmentalists, however, have recently launched a campaign dubbed "Paid for Big Oil" that focuses on linking the campaign contributions received by members of the Republican leadership to their position in legislative debates. The League of Conservation Voters, Sierra Club, Natural Resources Defense Council Action Fund, Environment America, Defenders of Wildlife Action Fund and OilChange USA are all participating in the campaign.

From a political standpoint, some environmentalists argue that such a message is ultimately more successful on the campaign trail than one based around calls for increased drilling. "The fact is the message, 'you're too close to

big oil' will trump message, 'I'm for drilling off the coast' every time," said Carl Pope, executive director of the Sierra Club, in a recent interview.

Some argue there is also a flip side to the shift among some Democrats toward a pro-drilling position -- namely that there are many conservative Republicans who are now embracing policies that call for increased use of renewables and other alternatives.

"It's certainly always possible, in the final analysis, the issue is moving in [the environmentalists'] direction," Chaloupka said. "There are certainly people talking about alternative energy that never would have done it before."

Drilling Bill Passes in House

CQ Today, September 16, 2008; <http://www.cq.com/document/display.do?matchId=65282637>

By Avery Palmer

After months of debate about expanding offshore oil and gas drilling, the House passed legislation Tuesday that could open up large areas off U.S. coastlines to energy production.

The bill (HR 6899) passed 236-189 despite the objections of Republicans who said it would do little to boost offshore oil and gas production. President Bush threatened a veto.

A Republican attempt to stall the measure was defeated. The chamber voted 191-226 against a motion to recommit the bill to the Natural Resources Committee.

After watching Republicans gain political traction in recent weeks with calls for more offshore drilling, Democratic leaders hope the legislation will provide political cover for moderate members of their caucus who face tough re-election fights.

Democrats touted the bill as a compromise that would expand domestic production and invest in alternative energy sources. It would allow drilling beyond 100 miles off U.S. shores and give states the option of allowing production beyond 50 miles from the shores. It proposes major incentives for renewable energy, building efficiency and advanced technologies for coal-fired power plants.

"I don't know why my Republican colleagues can't take yes for an answer," said co-sponsor Gene Green, D-Texas. "If you want to drill in our country, this is the bill."

Majority Leader Steny H. Hoyer, D-Md., said the bill represents a change from the policies of Republicans and the Bush administration.

"The bill that we've brought to the floor will help end the Bush-McCain energy policies of the past," he said.

Republicans complained they had no input. The measure was first released late Monday.

"We have a responsibility to defeat this legislation," said Don Young, R-Alaska. "It was conceived in the dark. Who the father is, I do not know."

The bill represents a concession for Democrats who have resisted calls for any new offshore drilling. But the House leadership has acknowledged that the measure was probably necessary, because Republicans otherwise were prepared to stall an appropriations package that will keep the government running next year.

The current drilling moratorium has been renewed in annual appropriations legislation since 1982, and the House GOP said it would fight the fiscal 2009 package if it included an extension of the moratorium.

The Senate could take up its own energy legislation in the coming days, but prospects for working out a final version with the House appear difficult. The Senate is not expected to pass the House bill in its current form.

"There's always the possibility of compromise as long as people actually want to get a bill," said Mary L. Landrieu, D-La. "But the problem is, the Speaker couldn't want to get a bill very much since she didn't talk to Republicans about designing one."

The bill would keep certain areas off-limits to petroleum companies, including the eastern Gulf of Mexico off the coast of Florida. A last-minute provision also would make the historic Georges Bank fishery off-limits to drilling, at the request of New England lawmakers.

The motion to recommit the bill essentially would have replaced the measure with another (HR 6709) backed by John E. Peterson, R-Pa., and Neil Abercrombie, D-Hawaii. Their bill would repeal the moratorium on drilling in the Pacific, Atlantic and the eastern Gulf of Mexico, while allowing states to restrict drilling between 25 and 50 miles offshore.

Abercrombie urged the House to vote against the motion despite his role in crafting the alternate bill. "What I'm hoping is that the other bill passes . . . that we then go to the Senate and say, look, we have a considerable consensus here."

'Backdoor Disincentives'

Republicans called the Democratic drilling bill a sham. They said states would be unlikely to allow drilling near their shores because the legislation would not give them a share of the royalties from energy production.

"These backdoor disincentives will prevent states from taking advantage of their energy resources," said Jerry Lewis, R-Calif.

"At a time when American families are in need of genuine relief from the effects of high fuel prices, this bill purports to open access to American energy sources while in reality taking actions to stifle development," the White House said in a statement of administration policy.

The legislation would use new oil and gas royalties to offset the cost of incentives designed to promote energy efficiency, renewable energy or carbon capture and sequestration. It would require utilities go generate 15 percent of their energy from renewable sources by 2020.

The bill also would extend tax credits for wind and solar energy. It includes new tax breaks for coal projects that capture carbon, fueling stations for natural gas vehicles and energy conservation. Spending on these provisions would be offset by rolling back tax subsidies for oil companies.

The bill would establish new ethics requirements for the Minerals Management Service, a division of the Department of the Interior that oversees the leasing program. This follows an Inspector General report that found federal employees engaged in sexual misconduct and illegal drug use with oil industry workers.

And an 11th-hour addition to the bill would lift a moratorium on an oil shale leasing program for Colorado, Utah and Wyoming, but only if a state decided to move ahead with leases. This provision was a priority for Jim Matheson, D-Utah. Petroleum companies are experimenting with new technology to extract potentially vast amounts of energy from oil shale.

With 97% of gulf production stalled, DOE delivers from strategic reserve

E&E, September 16, 2008; <http://www.eenews.net/eenewspm/2008/09/16/7/>

Katie Howell

Hurricanes Gustav and Ike have stalled about 97 percent of oil production and 84 percent of natural gas production in the Gulf of Mexico, but operators are reboarding platforms and drilling rigs for inspections and restoring production, the Minerals Management Service said today.

To help offset limited production, the Department of Energy announced it was loaning companies 1.43 million barrels of oil from the Strategic Petroleum Reserve.

Stalled gulf operations have hindered companies' efforts to process crude into gasoline, chemicals and other substances. Several companies have requested emergency SPR releases to help meet demand. DOE today announced a second delivery of oil to ConocoPhillips Co. The 239,000-barrel loan will go to the company's Wood River refinery in Roxana, Ill.

"DOE deemed the emergency exchange necessary due to major supply disruptions caused by hurricane damage," said Healy Baumgardner, a DOE spokeswoman.

DOE has also released 250,000 barrels to Marathon Oil Corp., bringing total deliveries to that company to 750,000 barrels. Placid Refining Co. has received 239,000 total barrels from two releases, and today's release is the second to ConocoPhillips, bringing its total up to 439,000 barrels.

Citgo Petroleum Corp. has also made a request for an SPR loan. DOE is currently reviewing that request.

The Gulf of Mexico produces 1.3 million barrels of oil per day and 7.4 billion cubic feet of gas per day, according to MMS estimates.

Operators and officials are currently inspecting offshore platforms and rigs for damages, and if no damages are detected, the facilities will begin operating and producing immediately, MMS said.

Senate Energy Negotiators Tweaking Plan to Bring McCain Onboard

CQ Today, September 16, 2008; <http://www.cq.com/document/display.do?matchId=65237919>

By Catharine Richert

A bipartisan Senate energy plan to boost energy supplies may get some tweaks to win the support of Republican presidential candidate John McCain, one of its drafters said Tuesday.

"We're trying to be more aggressive on drilling," said Sen. Lindsey Graham, R-S.C., a close ally of McCain and his surrogate in negotiations on Capitol Hill.

Graham would not say specifically how the plan would change in terms of drilling; the proposal already would lift a ban on offshore drilling in the eastern Gulf of Mexico and would allow the four southeastern states to opt in to expanded drilling.

Graham also said the group is pushing for a more "balanced" approach to paying for the bill without an aggressive tax increase. Currently, the package includes an estimated \$84 billion in investments in conservation and efficiency offset by cutting tax breaks to oil and gas companies, which many Republicans strongly oppose.

Democratic members of the bipartisan gang of 20 lawmakers negotiating the package, including Sen. Kent Conrad, D-N.D., are privy to the alternations Republicans seek to make, Graham said, though it's unclear if they will agree to them. It's also unclear if Democratic presidential candidate Barack Obama has been courted to endorse the plan, though Sen. John Thune, R-S.D., said "the lines of communication are open on both sides."

Five Republican and five Democratic Senators originally crafted the plan this summer as a response to high gas prices. The group has now grown to 20 members, evenly divided between both parties, and Sen. Majority Leader Harry Reid, D-Nev., has promised the group a vote on the bill before Congress adjourns for the election season.

House To Take Up Energy Bill Expanding Offshore Drilling

CQ Today, September 16, 2008; <http://www.cq.com/document/display.do?matchId=65218594>

By Avery Palmer

The House was struggling to take up new energy legislation Tuesday over protests from Republicans that they did not have time to review the bill.

The bill (HR 6899), introduced late Monday night, is the product of weeks of negotiation and partisan disputes over energy policy. In a major concession for Democrats, the bill would open extensive new areas in U.S. waters to oil and gas drilling. The bill would also provide incentives for renewable energy and energy-efficient buildings.

Lawmakers will debate the bill under a closed rule with no amendments permitted. However, Republicans will be able to use a procedural motion to recommit prior to a final vote. They will likely use the motion to call for a vote to allow oil and gas drilling in additional areas.

In protest against the rush to the floor and the closed rule, Republicans were forcing a series of procedural votes on the floor that served to delay consideration of the measure.

The bill was expected to come to the floor later Tuesday, although Rules Committee Chairwoman Louise M. Slaughter, D-N.Y., did not rule out a postponement until later in the week. "That is my hope," she said when asked if the bill would come up on Tuesday.

Republicans wasted no time in objecting that they had been given no time to read the 290-page bill. "One would at least hope you'd have a hearing on the bill in question," said Doc Hastings, R-Wash.

Natural Resources Committee Chairman Nick J. Rahall II, D-W.Va., responded by citing "extensive, wide-ranging negotiations that have helped produce this bill."

Without tipping his hand too much, House Minority Leader John A. Boehner, R-Ohio, promised a ferocious battle Tuesday against the energy legislation.

"It's going to be a big fight. Stay tuned," said Boehner, who has made energy his main issue in recent months as he tries to buck predictions that the GOP will lose seats in November's elections, a development that could cost him his leadership position.

Boehner and other House GOP leaders, emerging from their weekly conference meeting, blasted the bill that Speaker Nancy Pelosi finally unveiled at around 10 p.m. Monday. Boehner, who said he hadn't seen the bill until then, attacked the measure for failing to produce more domestic energy. He said it was more an attempt to provide political cover for Democrats than a real effort to deal with an issue that has pushed its way to the top of public concerns this election year.

"This bill was clearly written on the back of a napkin," he said. "That ought to tell you what a hoax and a sham it is."

He said that while the bill addresses more offshore drilling, an issue that Republican House members had hammered home during rump floor sessions throughout the month of August, it actually does not expand exploration in the outer continental shelf because it doesn't grant states that permit such drilling a share of the royalties. Without such incentives, Republicans say, states are unlikely to permit drilling.

Boehner also charged that the bill fails to expand nuclear power, oil shale and other promising alternative energy sources.

Boehner also blasted the bill because he said it contains a \$1.2 billion earmark for so-called Liberty Bonds, which his aides said is a program long sought by Ways and Means Chairman Charles B. Rangel, D-N.Y., to build a new rail line from Lower Manhattan to John F. Kennedy International Airport.

"It's an earmark that's been added on this bill because it's a train that looks like it might be moving," the leader said.

House Majority Leader Steny H. Hoyer, D-Md., belittled Republican claims that the legislation fails to create more domestic energy supplies. "Hopefully, the Republicans will take yes for an answer," he said.

"This is a bill that expands drilling and hopefully Republicans will not opt for political slogans but will opt for an energy solution," Hoyer added.

The Democrats' bill, while giving new states the option of allowing restricted offshore oil and gas exploration and drilling, does not offer those states a share of the royalties, as states that already allow offshore production currently get. New states may be unwilling to allow offshore drilling without a financial incentive to do so.

Hoyer appealed to their patriotism. "The American public believes we ought to use America's resources," he said. "I hope the governors would respond to those very same constituents and facilitate us becoming independent of foreign oil."

Major Provisions

Under the legislation, states would have the option to allow drilling between 50 and 100 miles off the Pacific and Atlantic coasts. Areas beyond 100 miles from the shoreline would be open to drilling. The bill would retain an existing moratorium on drilling off the Florida coast in the Eastern Gulf of Mexico.

Democrats added a last-minute provision to remove a moratorium on a leasing program for oil shale in Colorado, Utah and Wyoming. However, new leases would be allowed only if a state approved them.

Rahall told reporters that as Democrats drafted the bill, the oil shale moratorium was a particular concern for Jim Matheson, D-Utah. Oil shale has the potential to provide a vast amount of domestic energy, but the technology to extract the resource is still in the experimental stages.

The bill would use new oil and gas royalties to offset the cost of future legislation on energy efficiency, renewable energy or carbon capture and sequestration. It would require utilities to obtain 15 percent of their power from renewable sources by 2020.

The bill also includes roughly \$19 billion in new tax incentives for renewable energy, new coal technologies and alternative-fuel vehicles. It would extend for one year the main tax credit for producing electricity from wind and for three years the credit for other sources, then would cap how much of their investments taxpayers could reclaim through the credit after 2009.

The tax breaks are fully offset under pay-as-you-go rules by two provisions. One would change the tax treatment of foreign earnings of U.S. oil companies. The other would bar major domestic oil companies and those controlled by foreign governments from claiming a deduction for domestic manufacturing.

The bill includes new ethics requirements for the Minerals Management Service, a division of the Department of the Interior that oversees the leasing program. This follows an Inspector General report that found federal employees engaged in sexual misconduct and illegal drug use with oil industry workers.

Congress debating end of offshore drilling ban

San Francisco Chronicle; September 16, 2008; <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/09/16/MNIP12T0JT.DTL>

Zachary Coile

Congress opens a historic debate today over lifting the federal moratorium on offshore drilling, which for nearly three decades has blocked oil and gas development along most of the Pacific and Atlantic coasts.

In a strange election-year twist, House Democrats will lead the push to eliminate the ban and give states the right to drill off their shores. Most Republicans, who have sought to end the ban, plan to oppose the bill, saying it would still keep too many coastal areas off-limits.

The legislation marks a reversal for Democrats, including House Speaker Nancy Pelosi, who has fought fiercely to stop offshore drilling during her two decades in Congress. But high gas prices, relentless pressure from the GOP and polls showing strong support for drilling have forced Pelosi to yield.

Democrats hope to put Republicans on the spot by tying new drilling to measures to strip oil companies of billions of dollars in tax breaks and to require electric utilities to use more wind and solar power - proposals Republicans oppose and President Bush has repeatedly threatened to veto.

Pelosi also has crafted the bill carefully to limit the scope of new offshore production. Waters within 50 miles of shore would be off-limits. States could choose whether to drill between 50 and 100 miles, but would be offered no financial incentives - such as a share of oil royalties - for taking the environmental risk of putting oil and gas rigs off their shores.

The bill would let the federal government decide whether to drill more than 100 miles offshore. But drilling supporters note that the distant location of the areas would make it more difficult to drill and to deliver oil and gas to shore.

"This is ingenious," said Rep. Don Young, R-Alaska, a leading advocate for more offshore drilling. "The Democratic leadership can say they tried to open some (Outer Continental Shelf) areas for production, but by eliminating the revenue-sharing provision none of the states will want to have production off their shores. The Democrats can claim credit for 'trying' to boost oil production while at the same time prevent any new energy production from occurring."

Strong opposition

The proposal has also earned the scorn of environmental groups, Democrats' traditional allies, who fear that party leaders are opening a Pandora's box by lifting the ban.

"We're against it because of the drilling," said Anna Aurilio, the Washington representative for Environment America. "The right thing to do is to pursue clean-energy solutions that will reduce our dependence on oil. The wrong thing to do is to drill more."

The bill could have vastly different impacts in different parts of the country.

Only four states - Virginia, Georgia, South Carolina and North Carolina - have expressed interest in allowing drilling off their coasts. But without a share of multibillion-dollar royalties, it's unclear whether any governors or state legislatures would choose to allow drilling.

In California, Gov. Arnold Schwarzenegger and the state Legislature oppose new drilling. The Democratic-led Assembly and state Senate recently passed resolutions urging Congress to preserve the moratorium.

State has big reserves

California is believed to hold large reserves - more than half of the estimated 18 billion barrels of recoverable crude oil nationwide that are off-limits because of the drilling ban, according to the Interior Department's Minerals Management Service. But under the House plan, 95 percent of those resources would still be unavailable because they are within 50 miles of shore.

By contrast, along the Atlantic coast, 2.8 billion barrels of the 3.5 billion recoverable between Virginia and Georgia are within the zone from 50 to 200 miles offshore that could be opened under the bill.

House Democrats say they were backed into a corner on the drilling issue. President Bush lifted the presidential moratorium on drilling in July. The congressional moratorium expires Sept. 30, and Republicans have threatened to force a government shutdown if Democrats try to renew the ban as part of a temporary spending measure that must be passed to keep the government funded.

Expiration threat

If the moratorium expires, the Bush administration could immediately begin preparing new lease sales, where oil companies would bid for the right to drill tracts along both coasts.

"We have to face the reality that if we don't have something in the bill, it is drilling 3 miles offshore," Pelosi told reporters last week. States currently have control over only the first 3 miles of their coastline, while federal control extends to 200 miles offshore.

Republicans have improved their political fortunes by pounding the energy issue relentlessly. A Gallup Poll conducted after the GOP convention showed Republicans in a dead heat with Democrats - 45 to 48 percent - on the generic ballot, which tests which party's candidate voters say they will support this fall. Analysts have been predicting the GOP will lose House and Senate seats, but the poll suggests the party could fare better than expected.

GOP leaders see little incentive to compromise with Democrats on the drilling issue. In the Senate, some Republicans criticized their GOP colleagues for backing a bipartisan plan that would revoke tax breaks to oil firms, subsidize biofuels and renewable energy, and let four Southern states opt out of the drilling ban. Sen. John Cornyn, R-Texas, the Republican Conference vice chairman, told the Roll Call newspaper, "From a political standpoint, I think it does sort of muddy the message."

Democrats are frustrated that they haven't been able to win over the public with their argument that drilling won't bring gas prices down. The U.S. Energy Information Administration concluded that lifting the moratorium would offer no short-term relief at the pump and would have an "insignificant" effect on oil prices in 2030.

"The Republican argument that 'drill here, drill now' will save people money isn't a policy discussion. They have caught a political wave that has found some traction," said Rep. Mike Thompson, D-St. Helena. "It's unfortunate that a lot of people have taken the bait, the political bait, on this Republican scam."

Tie-in with Ike possible

Capitol Hill watchers believe there's little chance the House and Senate can reach a deal on an energy bill before they recess in October. But Democrats have another option: They could attach their language limiting the scope of new drilling to a temporary spending bill that includes disaster relief for states hit by Hurricane Ike - which would be more difficult for Bush or Republicans to oppose.

Drilling backers believe Democrats will blink first to avoid being portrayed as anti-drilling just weeks before the Nov. 4 election.

"Rhetorically, they have put their members on record as being in support of drilling - which is an about-face from their position as recently as a year ago," said Brian Kennedy, senior vice president of the Institute for Energy Research and a former aide to House Minority Leader John Boehner, R-Ohio. "It certainly puts Democrats in the position of having to put their money where their mouths are - if not now, sometime in the future."

Ms. Pelosi's Compromise

NYT, September 16, 2008; <http://www.nytimes.com/2008/09/16/opinion/16tue2.html>

This is obviously not the best moment for Congress to rush through an energy bill. The country is caught up in a heated presidential campaign. Voters are furious at high gas prices. Republicans are happily pandering to that anger, while the Democrats fear it. And at the end of this month, just before Congress heads home for the election recess, the longstanding moratorium on offshore drilling is scheduled to expire — providing an opportunity for more grandstanding.

Congress has sensibly renewed the moratorium each year for the last 26. Unfortunately, these are not sensible times, which means that Congressional Democrats, particularly House Speaker Nancy Pelosi, must try hard to make the best of a bad situation.

The situation, briefly, is this: The Republicans have been bludgeoning the Democrats with the claim that Democratic opposition to offshore drilling is to blame for high fuel prices and that drilling is the answer, or one answer, to the country's dependence on foreign oil.

We find it hard to imagine that they really believe what they say. Drilling will have no impact on fuel prices for at least 15 years, if then, and any number of efficiency measures will do more to reduce the country's dependence than drilling for America's modest offshore reserves. But the chant of "drill, baby, drill!" is playing far too well on the campaign trail for the Republicans to let the facts get in the way.

The Republicans have offered bills that would provide broad access to the outer continental shelf and, in one case, allow drilling as close as 12 miles from shore. So Ms. Pelosi is taking no chances. As early as Tuesday, she is expected to unveil what she advertises as a grand compromise. The bill would allow drilling in all of the outer continental shelf beyond 100 miles and between 50 miles and 100 miles offshore from states that permit it.

In exchange, the measure would greatly expand investments in alternative energy. It would require states to obtain more power from renewable sources like wind, mandate more efficient buildings, offer tax incentives for fuel-efficient vehicles like plug-in hybrid cars and pay for much of it with oil royalties and by repealing unnecessary oil industry tax breaks. On the Senate side, moderates from both parties have fashioned a similar compromise. Its main defect is that it would return 30 percent of the royalty revenue from offshore drilling to the coastal states, which looks suspiciously like a bribe to get them to say yes to drilling. That money would be better spent on helping develop alternatives to fossil fuels.

Ms. Pelosi's compromise deserves support. If it fails, the Democrats must fight to renew the moratorium. Otherwise, there could well be oil rigs within three miles of American shores.

Coastal Drilling Debate Is Headed to House Floor

CQ Today, September 15, 2008;

<http://www.cq.com/document/display.do;jsessionid=93209A09B88B413789C8BA26D3FF98CA.manono?matchId=65146875>

By Avery Palmer

The House is scheduled to begin a long-awaited debate on energy legislation Tuesday, as lawmakers take up a Democratic bill that would let states open their coastal waters to oil and gas drilling.

The bill (HR 6899) was slated to go to the Rules Committee late Monday, setting up a bruising floor fight with Republicans who want drilling with fewer restrictions.

Democratic leaders spent much of Monday trying to determine if their members from Texas, which was slammed by Hurricane Ike over the weekend, would make it back in time to vote Tuesday.

Natural Resources Chairman Nick J. Rahall II, D-W.Va., said details of the bill were still under negotiation Monday, including whether to add language lifting a federal moratorium on oil shale leasing in the Rocky Mountain states.

Republicans have called for an end to that ban, a move that environmentalists would oppose. Rahall said lawmakers were considering a compromise that would allow a "state option" for some discretion on oil shale leasing.

Rahall expressed optimism that Democrats would hold together in voting for the bill. "There'll be some defections, obviously," he said.

More worrisome, Rahall said, was whether the caucus could fend off a procedural move by Republicans to recommit the bill. This could put conservative Democrats in a political tough spot if they vote against more energy production.

"We're just about there," Rahall said of the procedural vote.

The effect of the Democratic bill could be to open to exploration vast areas of the outer continental shelf that are currently off limits. States could allow drilling 50 to 100 miles off their shores, while the federal government could permit drilling from 100 to 200 miles offshore.

Republicans call the bill a sham, arguing that states will never agree to open their waters to drilling because the bill would not let them share royalties from new offshore production.

Democrats say their bill also would retain a 125-mile buffer in the eastern Gulf of Mexico off Florida's shores, and Republicans complain that restricting drilling to beyond 50 miles would place most of the Pacific coast's known reserves out of bounds.

Still, the bill represents a dramatic reversal by Speaker Nancy Pelosi, D-Calif., and other Democratic leaders, who spent months fending off Republican calls for expanded offshore drilling but were forced to find political cover for politically vulnerable moderates in their caucus.

Democratic leaders also have acknowledged they cannot pass a resolution needed to keep the federal government running in the new fiscal year unless a moratorium on new drilling off most U.S. coastlines is dropped. It has been renewed in annual appropriations bills since 1982.

Tax Credits Move Forward

On Monday, Democrats also unveiled further details of provisions that would expand tax credits for renewable energy. The roughly \$19 billion tax package mirrors similar versions that the House already passed this Congress (HR 3221, HR 5351).

It would extend for one year the main tax credit for producing electricity from wind and for three years the credit for other sources, then would cap how much of their investments taxpayers could reclaim through the credit after 2009.

This provision, however, has been the source of a long-running dispute between the House and Senate. Charles E. Grassley of Iowa, the ranking Republican on the Senate Finance Committee, wants to keep the wind credit in its current form.

The package also would extend tax incentives for solar energy as well as energy-efficient commercial buildings and appliances. It includes new tax breaks for coal projects that capture carbon, plug-in hybrid vehicles, fueling stations for natural gas vehicles and energy conservation.

The breaks are fully offset under pay-as-you-go rules by two provisions. One would change the tax treatment of foreign earnings of U.S. oil companies. The other would bar major domestic oil companies and those controlled by foreign governments from claiming a deduction for domestic manufacturing.

The legislation also would extend tax credits for solar and wind power and require utilities to generate 15 percent of their energy from renewable sources by 2020.

The Senate may also debate energy legislation later this week, after finishing work on the fiscal 2009 defense authorization bill (S 3001). Energy and Natural Resources Committee Chairman Jeff Bingaman, D-N.M., and Finance Committee Chairman Max Baucus, D-Mont., are expected to unveil new legislation this week.

A bipartisan group of 20 senators is working on separate legislation that would lift the ban on drilling in the eastern Gulf and allow Virginia, North Carolina, South Carolina and Georgia to opt in to offshore drilling. Senate Republicans may push for a separate proposal.

One if by Land, Billions if by Sea

NYT, September 15, 2008; <http://www.nytimes.com/2008/09/15/opinion/15abraham.html?ref=opinion>

By DAVID S. ABRAHAM

THE House speaker, Nancy Pelosi, is to unveil specifics of a Democratic energy bill this week that would open some offshore areas to drilling — marking a major change in her position. She will likely face opposition from the House Republican leadership, who believe her plan falls short. Only their proposal, they say, will adequately reduce fuel prices and help America become energy self-sufficient.

Let's hope the Republican efforts fail — because, in fact, their plan would recklessly hand coastal states billions of federal dollars while giving them undue influence over national resource management.

The Republicans' offshore drilling plan, proposed by Representative John Boehner of Ohio, the minority leader, is patterned after the Gulf of Mexico Energy Security Act of 2006, which lifted the oil and gas drilling moratoriums for an area in the Gulf the size of New Hampshire. To ensure sufficient backing, Congress agreed to pay the nearby coastal states — including Louisiana, Texas and Alabama — for not opposing the offshore exploration. These payments will add up to roughly \$200 million over 10 years and, after 2016, \$500 million annually. In return, the states agreed, in effect, to grant the federal government the authority it already possessed to get access to federal resources on federal lands.

In similar fashion, Mr. Boehner's proposed American Energy Act would, over the next decade, give nearly \$40 billion from oil and gas royalties and leasing activity to coastal states that support drilling. And that would be just the beginning. After 2019, the federal government would transfer to coastal states 37.5 percent of all federal revenue from offshore oil and gas activity — at least \$6 billion annually, based on current production alone. That's nearly as much as the government spends on environmental-protection programs.

Even the White House has signaled that such a cost would be too high. In 2006, the Bush administration opposed a similar revenue-sharing plan, arguing that it would cost several hundred billion dollars over the next 60 years.

Although less egregious than the Republican bill, another offshore drilling proposal being circulated by Representatives John Peterson of Pennsylvania, a Republican, and Neil Abercrombie of Hawaii, a Democrat, would also allocate hundreds of billions of federal dollars to states.

Coastal states could use these billions for any purpose whatsoever, without explanation to the federal government. In other words, non-coastal states would subsidize states that allow oil and gas exploration off their coasts. This is

even though Louisiana is one of the few states with a budget surplus, thanks to the money it takes in from oil drilling in the Gulf of Mexico.

Coastal states argue that they need the money to compensate for the environmental damage that drilling might cause. What they fail to mention is that they already profit from the additional jobs and tax revenue that come from oil and gas drilling in federal waters. Louisiana alone has earned nearly \$1 billion annually from economic activity related to energy resource development.

In addition, since 1953, coastal states have collected all the revenue from drilling within three nautical miles of their shores and, more recently, 27 percent of proceeds three to nine miles out. Since 1980, Louisiana alone has earned about \$4 billion from this arrangement — more than enough to pay for environmental cleanup.

The Republican bill would also give coastal states undue authority over national resources, allowing each one to dictate federal energy policy to 49 others and create an inefficient and uncoordinated patchwork of development.

Despite its cost, the plan would do little to increase the supply or reduce the price of oil. Oil companies already have access to nearly 80 percent of all American offshore oil that is technically recoverable. This bill would probably open up less than half of the remaining 20 percent, amounting to approximately two-thirds of one percent of all globally recoverable resources. The Department of Energy has already stated that the effect on prices would be “insignificant.”

It seems likely that Ms. Pelosi’s plan will also give states far too much control over energy policy, but she will stop short of giving them hundreds of billions of federal dollars.

Congress must debate offshore drilling on its own merits without using resource revenue to buy votes. Representative Boehner says he is “committed to a comprehensive energy reform policy that will boost supplies of all forms of energy.” I wish he and his allies were interested more in prudent resource and fiscal management than in political victory. Only in the myopic world of Washington could legislators claim his plan is responsible energy policy.

Obstacles stunt Calif. offshore drilling

Washington Times, September 15, 2008; <http://washingtontimes.com/news/2008/sep/15/unlikely-obstacles-stymie-california-offshore-dril/>

Patrice Hill

The Bush administration and oil companies say they want to open up the nation's coastal areas to new drilling, but in two cases - involving some of California's most promising oil fields - they are doing little to make that happen.

The U.S. Air Force is standing in the way of a project to tap into fields containing as much as 300 million barrels of crude - the biggest new oil find in California in 40 years - despite strenuous attempts to accommodate the military's concerns by oil companies seeking access to the offshore fields using a 25-acre parcel of land on Vandenberg Air Force Base.

Meanwhile, the major oil companies - including Exxon Mobil and Shell - have abandoned hopes of tapping into an even larger treasure trove of oil fields off the central California coast that could yield 200,000 barrels a day. Unmoved by this year's major shift in public opinion in favor of drilling, even in environmentally conscious California, they are demanding reimbursement of the more than \$1 billion that they paid the federal government to lease the fields decades ago.

"We want our money back, clear and simple," said Edward Bruce, a Covington & Burling lawyer representing the oil companies in a long-running case against the Interior Department over the leases. "You need a tremendous change in the law" to consider drilling there again. A federal appeals court upheld the oil companies' claim late last month.

Second look

Revived public interest in drilling prompted President Bush in July to lift a moratorium on leases for offshore oil exploration that his father, former President George H.W. Bush, put into place two decades ago, declaring that now

is the time to reconsider the drilling ban as Americans buckle under the burden of oil prices that went as high as \$147 a barrel this summer, sending gasoline prices well over \$4 a gallon and as high as \$5 at many West Coast stations.

Sentiment has changed even in Santa Barbara County, where a major spill of 88,000 barrels of crude off the coast in 1969 became a seminal event that not only led to today's restrictions on drilling, but also helped to start the modern environmental movement in the United States.

Late last month, the county council voted 3 to 2 to ask the state to open up drilling again, citing the lack of major oil spills in the past 40 years made possible by new and safer drilling technologies, as well as the need for potentially billions of dollars that could be raised in oil revenues for the financially strapped state and county.

But while the political obstacles to drilling are falling rapidly, getting to the point where oil starts flowing again from the continental shelf promises to be a long slog requiring proponents to overcome monumental legal, institutional and bureaucratic obstacles.

"It's just mind-boggling. We have tried everything under the sun" to get the Air Force to approve the Vandenberg drilling project, said Bob Nunn, president of Sunset Exploration, a small California oil company that teamed up with Exxon Mobil to propose the innovative drilling plan. "We are stopped at every turn."

Military roadblock

Mr. Nunn owns the legal rights to the minerals beneath an 8,000-acre tract on the Air Force base, but he needs the military's permission to use a small piece of the tract to establish onshore facilities that would tap into the offshore oil through horizontal drilling techniques perfected in recent years.

Some experts think this approach of tapping offshore oil through onshore facilities, which avoids the risk of oil spills that can devastate ocean ecosystems, may be the best way to develop California's substantial offshore oil resources without major environmental harm and the public opposition it generates. The drilling site selected by Mr. Nunn would seem to have little environmental value, project proponents say, as it was used for target practice after World War II and still contains unexploded ordnance that would have to be cleared away before it could even be used for drilling.

The Air Force, which uses the site to launch three or four military satellites a year, has raised various objections to the drilling project since 2002, saying it could interfere with the launches, although Mr. Nunn has pledged to clear the property of all oil equipment before each launch and not hold the Air Force responsible for any damage done to oil facilities if a launch goes awry.

The most recent review of the matter, by Air Force Deputy Assistant Secretary Kevin W. Billings, appeared to abandon objections on the grounds of interfering with launches and instead concluded that the Air Force must conduct competitive bidding on any plan to drill from its base. Mr. Nunn contends that he holds exclusive legal rights to the oil found under the base property, which would prevent other oil companies from establishing drilling projects there.

"It's pretty bizarre. After five years, they still don't understand; these are our leases. No one else can bid," he said.

Mr. Nunn's plan could wind up losing out to a competing proposal from an oil consortium that would tap into the oil fields using an existing offshore drilling rig known as "platform Irene." But because the group was responsible for a small oil spill in the past, it had to drum up environmental support for its project by agreeing to stop drilling after 2022 after withdrawing only half the recoverable oil.

Money talks

Despite lingering concerns about oil spills, Mr. Nunn thinks the state and the county may now be more open to drilling, if only to help solve its monumental budget problems.

"We're talking about California basically going broke with \$18 billion in debt," he said. He estimates his project would provide California with \$4 billion in much-needed revenues from royalties.

In an attempt to clear the roadblocks laid down by the Air Force, Mr. Nunn said he has appealed to top Air Force brass as well as to Vice President Dick Cheney's staff. While expressing some sympathy, the high-level administration officials offered no assistance in the end, he said.

One top administration official, who asked to remain anonymous, said the blame for the delay lies with California, not the White House.

"The whole problem is the state won't let them go after the reserves," the official said. "If the state were to act, they wouldn't have to deal with Vandenberg."

The official contended that the Bush administration was doing everything it can to promote drilling.

"This may be the first story that accuses the administration of not moving on drilling projects. Usually, we're accused of trying to poke holes in national parks."

Douglas K. Anthony, an official who has been handling the drilling matter for Santa Barbara County, said the Air Force is blocking the project on the Vandenberg base, dubbed the Vahevala project.

"Vandenberg sent [the oil companies] a letter saying they don't have a site on base that's acceptable at this time," he said, adding that the county has turned its attention to the competing application for offshore drilling.

Mr. Anthony said that the changed political and economic environment could eventually lead the state to reconsider prohibitions that have stopped oil companies from tapping into major offshore oil fields for decades.

"Higher oil prices make it more attractive to drill offshore. We can see that play out in the halls of Congress," he said. "To me, the first step is what happens with Congress. We've seen different scenarios proposed from no leasing to leasing only if the state consents."

Going elsewhere

Gen. P.X. Kelley, former commandant of the Marine Corps and advocate for more domestic production of oil and gas, said it will be difficult to start up drilling in California again after its being taboo for so many years. He said Secure America's Future Energy, a group advocating more domestic drilling for national and economic security reasons, recently pushed to establish liquefied natural gas port facilities in California, but had to abandon the effort in the face of stiff environmental opposition and regulatory obstacles.

"California is not a welcome environment" for drilling, Mr. Kelley said. "They have regulatory prohibitions, and those low-level bureaucrats are quite successful in Sacramento," the state capital.

Persistent obstacles have led the energy-advocacy group to push for more modest drilling legislation in Congress that would start by authorizing drilling off the coast of Southern states like Virginia, North Carolina and South Carolina, where conservative voters are more open to oil production and want to share in the revenues, he said.

"It's rather peculiar. The Chinese can drill in the Gulf of Mexico for the Cubans," but U.S. companies cannot tap the same resources from the American side, he said. "I think we should be rethinking the whole issue. We have a major crisis in this country. We use 25 percent of the world's oil and only provide 3 percent of the resources."

Gasoline prices rise as Ike disrupts fuel networks

Greenwire, September 15, 2008; <http://www.eenews.net/Greenwire/2008/09/15/2>

Ben Geman

Hurricane Ike, the second powerful storm to hit the Gulf Coast in two weeks, has shuttered large amounts of the nation's refining and oil production capacity, sending gasoline prices sharply higher in recent days.

But crude prices are down because of less-than-feared damage to offshore platforms, reeling global financial markets and slowing demand growth (see related story). Crude fell by almost \$5 per barrel today, climbed back slightly and is now trading at roughly \$97 per barrel on the New York Mercantile Exchange. Unless the price rallies

upward by several dollars, it could be the first day that oil has closed below \$100 per barrel on the NYMEX since March 4.

Ike hit Texas as a Category 2 hurricane on Saturday morning. Nearly 100 percent of gulf oil production -- about 1.3 million barrels per day -- remains offline from Ike and Hurricane Gustav, which hit two weeks ago. More than 90 percent of the gulf's natural gas production is also shut in.

Ten production platforms were destroyed but the number is expected to rise, a Minerals Management Service spokeswoman said. There are a total of roughly 3,900 platforms in the gulf.

Shell Oil Co. said flyovers revealed no major structural damage, while personnel redeployed to some evacuated platforms reported "moderate" damage.

"Losses to offshore oil and gas platforms are expected to contribute a relatively small proportion of the total insured losses for Ike, since winds and waves offshore were generally within the design levels for the platforms," said the firm Risk Management Solutions in a statement yesterday.

But 14 refineries -- 13 in Texas and one in Louisiana -- representing about 3.6 million barrels per day of capacity, roughly 20 percent of the nation's total, nonetheless remain idled as a result of the gulf storms, according to the Energy Department.

"Oil refineries suffered minimal damage from Hurricane Ike and are making preparations to restart operations," DOE said in an hurricane update today, but noted that several large refineries still lack electric power.

Valero Energy Corp., the nation's largest refiner, was forced to shut down three Texas refineries in Houston, Texas City and Port Arthur. Bill Day, a spokesman, said there was no structural damage but did report some flooding and "superficial" wind damage.

Day said the production units are in good shape, but did not provide a schedule for restart. He said there is not yet any power at the Port Arthur refinery, which has a capacity of 289,000 barrels per day, and only limited power at the other two.

The storm has shut down several crude oil pipelines, and natural gas pipelines and processing infrastructure have also been affected.

Gasoline prices have risen sharply due to disrupted fuel networks. The Energy Department, citing AAA data, said yesterday that gasoline prices in six states were 25 cents per gallon higher than they were Thursday.

Average regular gasoline prices have jumped by a nickel in the last day alone, according to AAA. The current average is slightly more than \$3.84 per gallon, compared to under \$3.80 the day before.

SPR requests

The offshore and pipeline supply disruptions prompted DOE to agree yesterday to start delivering 309,000 barrels from the Strategic Petroleum Reserve to refiners. Two-hundred-thousand barrels are going to ConocoPhillips' Wood River refinery in Illinois, while 109,000 barrels are heading to Placid Oil's Port Allen refinery in Louisiana.

Citgo Petroleum Corp. is also seeking SPR oil. "The Department of Energy received a request for an emergency exchange of SPR oil from Citgo late last night as a result of supply disruptions caused by Hurricanes Gustav and Ike. We are in the process of reviewing their request," the company's spokeswoman said.

The company -- a subsidiary of Venezuela's state-owned oil company -- said yesterday that it is asking for 1 million barrels of oil for its Lake Charles, La., refinery.

"Crude delivery options have been severely curtailed post Hurricanes Gustav and Ike, including the closures of the Sabine Pass and Calcasieu Ship Channel waterways. Citgo's request for SPR crude is an effort to alleviate potential fuel shortages in the United States," the company said in a statement yesterday.

Over the weekend, the International Energy Agency said it is "closely monitoring" the situation. "If a significant supply disruption has occurred, bearing in mind prevailing market conditions, the IEA stands ready to act quickly and provide oil to the market as it did after Hurricane Katrina in 2005," IEA said.

President Bush vowed over the weekend that the administration is on the lookout against fuel retailers using the storm as an excuse to charge unfair prices.

"The federal government, along with state governments, will be monitoring very carefully as to whether or not consumers are being mistreated at the pump -- in other words, gouged. It's very important for our fellow citizens during the period of temporary disruption to be treated fairly," he said.

There are have already been complaints. Florida Attorney General Bill McCollum (R) yesterday sent subpoenas to four companies asking for information about reported price increases. He said he had received more than 350 complaints over the last several days.

Democrats' partial retreat on offshore drilling faces floor tests

E&E, September 15, 2008; <http://www.eenews.net/EEDaily/2008/09/15/1/>

Ben Geman

The emerging Democratic strategy of a partial retreat on offshore oil and gas drilling faces key tests in the House and Senate this week, as lawmakers wrangle over plans that weaken coastal leasing bans while expanding alternative energy programs.

In the House, votes are expected as soon as tomorrow on Democratic legislation that would allow drilling more than 100 miles from the Atlantic and Pacific coasts, and as close as 50 miles from shore if coastal states agree to it. A ban on leasing out to 125 miles from Florida's Gulf of Mexico shores would remain until 2022.

In the Senate, Majority Leader Harry Reid (D-Nev.) wants to begin debate this week on at least three competing energy plans that include varying degrees of offshore drilling. They are a Democratic proposal that Sens. Jeff Bingaman (D-N.M.) and Max Baucus (D-Mont.) plan to propose; a bipartisan measure by the so-called Gang of 10, which has since grown to 20; and a GOP measure.

Bingaman, chairman of the Energy and Natural Resources Committee, said Friday that he sees a consensus emerging that some new areas of the outer continental shelf (OCS) should be open to drilling. And in the House, Democratic leaders have signaled they want to cut a deal on limited increases in coastal access, lest the bans lapse completely at the end of the month. But it remains unclear if the Senate, let alone Congress and the White House, can reach an agreement.

"That," Bingaman said Friday when asked about the prospects for a deal, "is a tougher question."

It is especially tough because the issue is bound up with the presidential election, and each side is wary of handing the other a victory -- in the legislative or public relations realms.

Democratic leaders, who have long opposed removing current protections, are for the moment tying drilling to many of their own priorities that many Republicans oppose, such as repeal of oil industry tax breaks and, in the House, a mandate that utilities supply escalating amounts of renewable power. The tax break repeals and renewables mandate both faltered in the Senate last year.

Republicans, meanwhile, have found a campaign rallying cry in pushing for more domestic production and have thus far called Democratic plans inadequate amid high energy prices.

House action

These crosscurrents are evident in the House Democrats' bill -- which has not yet been unveiled -- that is coming to the floor this week.

The bill has helped House Speaker Nancy Pelosi (D-Calif.) keep conservative members of her caucus in the fold as the GOP calls for more aggressive measures, winning praise and cosponsorship from Rep. Gene Green (D-Texas). Rep. Mike Ross (D-Ala.), who helps lead a group of conservative Democrats called the Blue Dogs, last week praised Pelosi for bringing up a bill with wider drilling for a vote.

Liberal members of the caucus, meanwhile, appear willing to support the bill as well. Pelosi, who for weeks refused to allow votes on relaxing the leasing bans, has said that absent a deal that allows some new drilling, the existing protections will vanish and areas just a few miles from shorelines will be open.

That is because the coastal leasing bans are renewed each year through Interior Department spending measure. But Republicans say the upcoming continuing resolution (CR) to maintain federal spending past the Sept. 30 end of the fiscal year should not contain the bans. Natural Resources Chairman Nick Rahall (D-W.Va.) flatly said last week that supporters of the bans lack the votes to maintain them through the CR.

Indeed, the notion that Democrats should try and salvage what they can in an environment where the pro-drilling forces have momentum has also gained traction -- or at least acceptance -- among some environmental groups.

The Sierra Club is calling for any energy measures to include major support for "clean" sources of energy, such as the tax credits and renewable power mandate. Democrats and activist groups also cite Energy Information Administration analysis showing that new OCS access would not significantly affect domestic production or prices for decades.

Republicans and industry, however, say Pelosi's plan does not do nearly enough to provide industry access to leasing bans that currently cover both coasts and the eastern Gulf of Mexico. President Bush lifted overlapping executive bans over the summer.

The Institute for Energy Research, a group that is strongly pro-development, calls the measure a "bait and switch," because states would have little incentive to opt-in to leasing in the 50 to 100 mile range absent a share of the revenues. And maintaining eastern gulf protections "denies access to large reserves located close to existing pipeline infrastructure," the group said in a memo last week.

Also, Republican leaders have long opposed repeal of oil industry tax incentives, saying this would stymie investment in domestic exploration.

The latest hurricane to disrupt gulf energy supplies could add a new wrinkle to the debate. Hurricane Ike has prompted closure of 15 gulf refineries, according to Reuters, and almost all gulf oil production remains offline.

It may give advocates of dismantling leasing bans in other coastal areas ammunition to argue for diversifying offshore production away from the gulf. But opponents will likely counter that the vulnerability of the oil infrastructure to weather-related disruptions underscores the need to transition quickly away from fossil fuels.

Senate action

A Democratic energy proposal that includes drilling and other measures is expected to be unveiled as soon as today, Bingaman said Friday.

Bingaman will be unveiling policy provisions to go along with tax measures Baucus outlined late last week that include extension of expiring renewable energy tax breaks and other alternative energy incentives, funded in part by repeal of the Section 199 deduction for the largest oil companies and other revenue from the industry (E&ENews PM, Sept. 11).

However, Reid may also try to move renewable energy tax legislation ahead of debate on broader energy bills.

The plan that is receiving the most attention thus far is the Gang of 10 measure. The outlines of the plan have been kicking around for weeks and the sponsors are planning a press conference tomorrow to unveil the bill itself.

Democrats used their weekly radio address Saturday to tout energy legislation -- and take shots at Republicans for blocking legislation that extends renewable energy tax credits, alleging their plans rely too heavily on fossil fuels, citing the now-famous "drill, baby, drill" chant at the GOP nominating convention.

"This week in the Senate, that choice will be clear as day. Democrats will be offering comprehensive energy solutions," said Sen. Ken Salazar (D-Colo.) in the radio address. He went on to say: "Republicans have to decide whether they just want to talk about our energy problems on the campaign trail, or whether they will work with Democrats to actually solve them."

Salazar is a cosponsor of the Gang of 10 plan. One oil industry lobbyist said the Gang of 10 plan is the measure that has the greatest likelihood of winning 60 votes, though it remains unclear if any measures will win that filibuster-proof majority. "Once they are on the floor they may start cutting deals," this lobbyist said.

The industry lobbyist predicted that regardless of the upcoming debate on energy packages, the drilling fight will be decided through the spending process. "I still think we are going to have a CR battle with OCS as the main component," the lobbyist said.

The Gang of 10 backers are already making a hard sales push. Just last week, in a bid to gain support from Alaska's senators, the sponsors added revenue-sharing for Alaska. The Alaska lawmakers are in talks with the sponsors of the Gang of 10 plan, Senate aides said.

The oil industry's biggest trade group, the American Petroleum Institute, is against the plan, arguing it provides too little new access and is too heavy on tax provisions the group calls punitive.

Other elements of the Gang of 10 plan include multi-year extension of renewable electricity tax credits, \$20 billion for an "Apollo program" to wean U.S. autos from oil-based fuels, as well as support for coal-to-liquids and nuclear power.

Sen. Mitch McConnell (R-Ky.) said Republicans embrace conservation but realize that any energy measures need to provide substantial new production.

"Some of the proposals we have heard from the other side certainly try and make an effort. But, by and large, they fall seriously short," he said at a Friday bipartisan energy summit hosted by the Energy and Natural Resources Committee. "They either ignore the need for increased domestic supply, or they're disproportionately meager in light of the severity of the crisis."

Save the Environment: Drill, Baby, Drill

NYT, September 15, 2008; http://www.nytimes.com/2008/09/15/opinion/15hahn.html?_r=1&oref=slogin

By ROBERT HAHN and PETER PASSELL

THE audience's mantra at the Republican National Convention — "drill, baby, drill" — reflected deep frustration with Washington's decision to lock down tens of billions of barrels of oil under American territory in an era of \$4-a-gallon gasoline. Whatever the merits of his argument, Barack Obama's response that "drilling is a stop-gap measure, not a long-term solution" won't make the sting go away as long as it costs \$100 to fill the tank of a pickup truck.

The crux of the matter is how accelerated drilling would affect gas prices, now and in the long term. And the conclusions of our latest research aren't likely to please true believers on either side. We found that full-speed-ahead exploitation of the restricted oil reserves would lower prices at the pump by a few cents at most. Nonetheless, it's equally clear that the failure to develop these oil resources would cost the state and federal governments hundreds of billions of dollars in royalties and taxes. It would also, paradoxically, pass up an opportunity for a grand bipartisan bargain — going far beyond the deal to open up some coastal drilling that Congress is expected to vote on this week — that could preserve or restore huge swaths of wilderness that are a top priority of serious environmentalists.

Our projections are based on government estimates that some seven billion barrels of oil could be extracted from the Arctic National Wildlife Refuge and a whopping 11 billion barrels could be had from the restricted offshore sites. That translates into an extra million barrels a day in the year 2025 — one-sixth of the total projected domestic output.

A big deal, right? Not in the context of the current political debate. The markets in which oil prices are determined are global, not local, and the extra million barrels would represent less than 1 percent of total world consumption in 2025. Thus we estimate that the million daily barrels would lower the price of crude by just 1.3 percent, which few consumers would even detect against the background noise of the weekly ups and downs of fuel prices.

To many, that's the end of the story. Why open a fragile ecosystem to drilling if it wouldn't materially reduce Americans' fuel bills? A good answer requires a shift in perspective, from the current focus on gas prices to a more comprehensive economic framework for weighing the public and private benefits of drilling against the likely costs.

Assuming that crude will still be selling for \$100 a barrel down the road, we estimate that the oil from two new sources would be worth close to \$1.85 trillion. Add to that the extra benefit to consumers of paying slightly less for imported oil and economic gains from being less vulnerable to supply disruptions, and the total benefit exceeds \$2.1 trillion.

On the other side of the ledger, the expected costs of developing all that oil, including cleaning up environmental damage, would amount to a bit less than \$400 billion. So, at a first cut, the decision to drill seems an economic no-brainer.

Why, then, the controversy? Many environmentalists argue that this calculation leaves out the biggest cost of all: the loss of the intangible benefits Americans get from knowing that the Alaskan refuge and outer continental shelf have been left untouched. Indeed, economists spend a lot of time thinking about such "non-use values," if not much time agreeing on them. Still, our best attempt to get a fix on the non-use value of Arctic National Wildlife Refuge yields a figure of just \$11 billion. In sum, this leaves about \$1.7 trillion in tangible net benefits, so most people, one would guess, would still find the case for drilling to be compelling.

Some people, however, attach a much, much higher non-use value to the Arctic refuge, and their opinions count a lot because they are well represented in Congress. So here's a question for them: If a big chunk of that \$1.7 trillion could be spent on preserving wilderness that didn't happen to sit astride vast quantities of oil, would you really choose to spend it on keeping human hands off the currently protected sites?

One could imagine a political bargain in which several hundred billion dollars went into a fund with a charter to preserve wilderness in the United States, or climate-stabilizing rainforests in Africa and Latin America. As little as \$100 billion would go a long way: the projected cost of preserving the entire Everglades against the encroachments of the Florida economy is \$11 billion, while a comprehensive restoration of 200,000 acres of Louisiana's coastal wetlands would run to \$18 billion.

For better or worse, "drill, baby, drill" is now widely viewed as the cure for what ails. Giving the public what it wants wouldn't lower gas prices by any meaningful amount. But it would create an opportunity to move public opinion (and huge sums of cash) in the direction of good environmentalism and good economics.
