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How Washington Can Help Alaska Drill
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How Washington Can Help Alaska Drill
WSJ, October 18, 2008; http://online.wsj.com/article/SB122428292829946089.html

Three years in, Shell is still waiting to recover a single barrel of oil

By LISA MURKOWSKI

Since 2005, Shell Oil has spent hundreds of millions of dollars to buy leases in hopes of exploring for oil off the coast of northern Alaska. Based on past drilling, the area seems a sure bet for increasing domestic oil supply. But so far Shell has not been allowed even to look for oil on these leases, much less extract any of it.

Why? Because the regulatory and permitting process covering offshore energy development for most of the nation guarantees delay, and because of a legal system that has no sense of urgency in making a decision -- any decision.

Two years ago, environmentalists teamed up with Alaska Natives who depend on subsistence whaling for their livelihoods and culture. They sued in federal district court in Alaska in July 2007 to stop Shell's exploratory drilling, claiming that it could disturb the whales and interfere with traditional bowhead-whale hunts. The case was quickly elevated to the Ninth Circuit Court of Appeals where it has languished since. While Shell has worked earnestly with whalers to meet their concerns, there doesn't seem to be any sense of urgency among federal regulators or the courts.

Threats to traditional whaling -- the backbone of Alaska's northern Native lifestyle -- must be fully addressed. Still, it is disappointing that we've created a system that is paralyzed from making timely decisions on whether development can or can't occur. I believe that, given the more than three decades of experience we have in Arctic energy development and the new technology we have, environmentally sensitive development can occur in harmony with traditional lifestyles. But we'll never find out if the courts can't make a decision.

We've known for decades that the Beaufort and Chukchi Seas hold considerable oil. It was therefore encouraging when Shell decided to spend the money necessary to extract oil in an area called Sivulliq, 16 miles off Alaska's coast.

The company followed the right procedures, securing federal leases for the area (at a cost of $83 million) and winning approval from the federal Minerals Management Service in February 2007. It also committed to spending $200 million to rent two ships and build others capable of hauling drilling equipment and an oil-containment boom, just in case it was needed. Shell also built a small fleet of ships able to break up or drive away ice-sheets that could pose a threat to floating well platforms.

But other federal agencies -- including the Environmental Protection Agency (EPA) -- had trouble issuing the endless stream of required environmental permits in time for drilling to start in August 2007. Outside of the Gulf of Mexico, federal agencies from the EPA to the National Marine Fisheries Service do not seem to have enough staff to regulate or issue permits for Outer Continental Shelf development (OCS) in a timely manner.

In the midst of the permitting process, Shell was hit with a lawsuit filed by the North Slope Borough, Alaska Eskimo Whaling Commission, the Center for Biological Diversity, and others. North Slope residents, who engage in subsistence whale hunting, worried that the activity in the Beaufort might scare the bowhead whales into deeper waters, making hunting more dangerous. They and environmental groups sued for an injunction to block drilling.

The Ninth Circuit issued a temporary injunction on July 19, 2007, and held a hearing the next month to decide if Shell could proceed later in September, after the whale hunt was over. Fifteen months later, after a second potential drilling season has come and gone, the court still has not ruled.

The U.S. Geological Survey this summer completed its first real assessment of the Arctic's potential, and found that the Alaskan Arctic likely contains 30 billion to 50 billion barrels of recoverable oil and 221 trillion cubic feet of natural gas -- the majority of it offshore. Thus while the Arctic likely holds 13% of the world's yet-to-be-discovered oil, we are making it more difficult to benefit from our nation's energy bounty.

How do we rectify the situation?

First, we need to conduct a modern assessment of how much oil and gas we actually have -- something Congress has approved but not authorized the funds to do. The Interstate Oil and Gas Compact Commission estimates that there are 30 billion barrels of oil and 134 trillion cubic feet of natural gas locked up in areas other than in the Alaskan Arctic that have been legally off limits for years. Those prohibitions lapsed at the beginning of this month, so now we need to know what we have and start the process of tapping into it.

We also need to create consolidated offshore environmental permitting offices for the entire country. This will allow us to gather experts under one roof and speed the permit process. And we must ensure that the judiciary isn't killing energy production by allowing drilling to be held in court limbo for years.
We should share OCS tax revenues with states and local jurisdictions to offset their infrastructure costs. That will increase the willingness of local residents to accept the ever decreasing risks of offshore development without resorting to a court fight.

And finally, we should join the world and approve the Law of the Sea Treaty so America can defend its claim to all of the energy under our continental shelf.

With the nation's environmental community shifting into overdrive, filing suits on everything from how oil and gas exploration will affect polar bears and seals to how carbon emissions affect the air and climate change, we must responsibly streamline the process to tap the OCS while fully protecting the environment. Americans forget we are the world's third-largest oil producer. It's not like we don't have the resources to tide us over until the new age of alternative fuels arrives. We just have been misled into thinking we can't do it safely.

Ms. Murkowski, a Republican, is a U.S. senator from Alaska and member of the Senate Energy and Natural Resources Committee.

Block Island embracing offshore wind farm plan
The Boston Globe, October 18, 2008;
http://www.boston.com/news/local/articles/2008/10/19/block_island_embracing_offshore_wind_farm_plan/

Electricity costs help sway support

By Bina Venkataraman

BLOCK ISLAND, R.I. - The wind whips an American flag towering over the palatial lawn that carpets this hilltop. A gust topples a paper coffee cup, half-full, onto a Victorian patio chair on the veranda of the island's oldest hotel.

"If we did have wind turbines, they would be smokin'," said Dave Houseman, general manager of the 19th-century Spring House Hotel, looking out at the breakers below. "Chances are you wouldn't even see them. But I think if you did, it's something you could get used to."

His remark reflects a widely held sentiment here since a developer recently proposed erecting a $1.5 billion wind farm in the waters off this isolated island.

The company has proposed building more than 100 turbines, each one up to 240 feet tall.

No site has been selected, but they could be located anywhere from within 3 miles off the coast, which would place them in Rhode Island waters, or up to 20 miles away, where they would be in federal waters.

Similar offshore wind farms along the East Coast have provoked fierce local opposition, including in Massachusetts, where the Cape Wind project for Nantucket Sound has been stalled for seven years by powerful groups concerned about their ocean views and the potential impact on property values, tourism, and marine life.

But high electricity prices, along with a conservation ethos that has led to the protection of more than 40 percent of the island in reserves and land trusts, have prompted many Block Islanders to embrace the offshore wind project.

"A lot of the residents recognize the need for wind power," said Nancy Dodge, town manager for New Shoreham, the municipality that encompasses the island. "The major concern is that anything we have to look at, we share in, so we don't bear the brunt visually without getting the benefits."

This summer, electricity prices on the island reached a record of 65 cents per kilowatt hour - at one point, the highest rate in the continental United States and more than four times the rate paid on the mainland 12 miles away.

Unlike Martha's Vineyard and Nantucket to the north, Block Island does not have a cable connecting it to the mainland.

The island relies on diesel, carted by fuel tankers on ferry boats and burned by generators at the local power plant.

As gas prices have risen at pumps across the country, Block Islanders have been hit at home.

"My electric bill was like a mortgage payment," said Mary Anderson, a landscaper. The Island Free Library's circulation clerk, Judy Mitchell, said she paid $700 per month for electricity for her home over the summer.

Hotels that serve the thousands of tourists who come here each year for the beaches, birds, and nature trails are among the island's biggest power users.

At the Spring House Hotel, the electric bill this August soared over $40,000, nearly $10,000 more than the August 2007 bill.

Houseman said that the hotel has closed three days each week of October to save money. And next year, for the first time, the hotel will open its season on Memorial Day instead of in early April.

At the National Hotel, a century-old wood frame structure on the waterfront's main road, Julie Fuller, the hotel's manager, said she would prefer the wind turbines not appear in the harbor view of her guests but added, "Our electricity bills in July were astronomical. At some point, where do you make a sacrifice?"

Fuller and other hotel managers said they were not too worried that the wind farm would deter the tourists they depend on for their livelihood; one thought the turbines might even attract visitors the way they have in Samso, an island in Denmark.

The Block Island Residents Association, which represents about 550 households of year-round and seasonal residents, has declared its support for the wind project.

Some residents, however, are reluctant to join the chorus until they see the details of the wind project, including the placement of the turbines and how visible they would be from land.

"I think the location will be critical," said Lawrence Cheng, an architect from Cambridge who spends summers in a house he designed in southern Block Island.

The wind farm plans are preliminary. No one knows where or when the first offshore turbines will spin near Rhode Island; state officials estimate it will be five to 10 years from now.

Last month, Governor Donald Carcieri revealed the state's selection of a developer, Deepwater Wind, and said the project would generate 15 percent of the state's electricity.

In August, the state coastal resources agency launched a two-year study of its ocean waters to pinpoint the best location. A cursory study completed for the governor's office last year deemed an area of coastal waters to the south and southwest of Block Island as among the best of 10 possible sites.

"Block Island had the best wind regime, which produces power at the lowest costs," said Andrew Dzykewicz, Rhode Island's energy commissioner.

Block Island waters have the benefit of being far off the mainland, where winds are strong, while making it possible to place the project in state waters, which extend 3 miles from shore.

Deepwater Wind's chief executive, Chris Brown, promised that regardless of the location, the company will pay for the installation of a cable from the wind farm to Block Island, making the island's electricity costs "competitive" with the mainland, where the price is now less than 15 cents per kilowatt-hour.

He said that the company wants the wind farm to be "virtually invisible from the coast of the mainland" but that it may be visible from Block Island.

Rhode Island could end up as the first state to build an offshore wind farm if it chooses a site in state waters, where the permitting process is expected to be quicker than in federal waters.

But for Block Island, there would be a tradeoff: closer turbines.

Michael Oppenheimer, a Princeton University professor and a leading authority on climate change, spends his summers in his house on the southwestern side of Block Island.

"If they put 200-foot towers within a mile of the beach, that's one thing," he said. "But I certainly don't rule out a wind installation that I could see from my house."

Wave energy regulatory war brews
The World, October 18, 2008;
http://www.theworldlink.com/articles/2008/10/18/news/doc48f98e6e3d61c180401084.txt

By Susan Chambers

Two federal agencies battle for jurisdiction over ocean projects

COOS BAY — There's a renewed fight brewing over wave energy, but it's not between the fishing industry and developers.

This time, it's between two federal agencies.

The Federal Energy Regulatory Commission has assumed it has jurisdiction over projects within state waters, out to three nautical miles — and that's generally been accepted as the case. The Minerals Management Service has assumed jurisdiction over alternative energy projects in the outer continental shelf, federal waters, beyond three miles.

That changed — maybe — on Thursday.

FERC decided to flex its muscles and assert its jurisdiction over hydroelectric projects in federal waters.

The decision specifically applied to a couple of projects in California and on the East Coast, but in a broader sense, its decision-making power also would apply to any projects for which developers applied in federal waters in other states.

“I am confident today's decision puts to rest any questions about FERC's jurisdiction over hydroelectric projects on the OCS,” FERC Chairman Joseph T. Kelliher said in a press release.

For example, Ocean Power Technologies, which is planning wave energy projects in Reedsport and near Coos Bay, planned for a project off of Newport as well. That project overlaps the three-mile line and juts into federal waters. OPT applied for a FERC permit in 2006.

Consequently, MMS, an agency under the U.S. Department of the Interior more accustomed to dealing with offshore oil and gas, disputed FERC's authority to issue permits or licenses for hydroelectric projects that may be located in whole or in part on the outer continental shelf.

MMS said it has federal regulatory authority for those kinds of projects under the Energy Policy Act of 2005. As a result, it's spent two years establishing an Alternative Energy and Alternate Use program designed to manage potential wave, tide or current energy activities. It also has been developing a programmatic environmental impact statement to examine the potential environmental consequences of implementing the program.

FERC, in Thursday's notice, claims jurisdiction in federal waters under the Federal Power Act.

The agency also said it has proposed a memorandum of understanding with MMS that would clearly delineate the roles of the two agencies. At the same time, FERC spokeswoman Celeste Miller said the memorandum could not be released because it had not been signed.

Blossom Robinson, a spokeswoman for Minerals Management, said as of Thursday she had not seen the MOU or even heard about FERC's new stance.

Local impacts

It's a wave new world out there — and regulatory uncertainty is just a part of it, said Lincoln County Assistant County Counsel Rob Bovett.

Bovett's been involved with wave energy for several years, ever since the county began considering alternative energy possibilities and began working with fishermen, Oregon State University and energy developers.

He sees MMS as having jurisdiction over projects outside of three miles but also recognizes there are problems with that — both for developers and fishermen potentially affected by buoy farms.

The minerals service is not accustomed to energy regulation, Bovett said. And if MMS continues to have jurisdiction, it will add more confusion and more paperwork for developers and the fishing industry.

But perhaps the greatest issue is the three-mile line itself.

"If we create this artificial line, it may force some projects nearer to shore or farther offshore," Bovett said.

That could generate problems for more than one sector of the fishing industry.

Crabbers, for example, generally use the nearshore sandy areas as their fishing grounds. The trawlers' realm is deeper water, typically offshore.

If FERC's assertion of regulatory authority holds up — and some fishermen and developers hope it will — it could have unintended consequences.

"If FERC was in charge of licensing and permitting outside of three miles, and (wave energy) technology supported it, it would take some of the pressure off some of the soft, sandy bottom that is favored for crabbing," Oregon Dungeness Crab Commission Executive Director Nick Furman said.

On the other hand, it could create more problems for trawlers and he doesn't want to see one part of the fishing industry pitted against the other.

OPT has adopted a wait-and-see attitude.

"We don't have an opinion," said OPT's vice president of business development and marketing, Herb Nock.

For now, OPT is aggressively pursuing its Reedsport and Coos Bay projects, both of which are sited in state waters. The Newport project is on the back burner.

"Over time, I think we'd like to see this resolved," Nock said. "In the meantime, we have plenty to do within the three-mile limit."

Bovett said there are some advantages to the energy regulatory commission being in charge, in addition to having a seamless transition between inshore and offshore waters.

“I think the industry would rather deal with FERC ... because FERC already is a regulatory entity,” he said.

Cumulative effects

FERC considers each wave energy project on a case-by-case basis, one project at a time. It doesn’t take into account whether another project is placed within a couple miles of an earlier one or what effect the total number of projects would have on other ocean users.

It’s a situation the fishing industry has complained about. Fishermen in Coos Bay could be affected by a project off the northern Oregon Coast if that is where they set their crab gear. Fishermen in all three states could be affected by the sheer numbers of wave energy farms, if established, but FERC does not consider multiple buoy farms as a whole.

“There’s no advance siting, no comprehensive siting,” Bovett said. “There’s no cumulative effects analysis.”

FERC is a regulatory agency, not a planning agency, he added.

A benefit to the Minerals Management Service having regulatory authority outside of three miles is the programmatic environmental impact statement. That process considers cumulative impacts of several projects on users and the environment and creates a general framework under which developers could apply for permits or licenses.

Also, the FERC licensing process for hydrokinetic energy — government-speak for wave, current or tidal energy projects — is based on the hydropower energy model for dams on rivers. It doesn’t work for ocean projects, Bovett said.

“On one hand, I strongly support FERC having regulatory authority,” he said, “but on the other hand, the government hasn’t given them the right tools.”

Appellate judges question standing in challenge to Interior's OCS leasing plan
E&E News, October 17, 2008; http://www.eenews.net/eenewspm/2008/10/17/2/

Noelle Straub

The Interior Department violated federal laws when preparing a five-year offshore leasing plan, environmental and Alaska groups told a federal appeals court today, but judges hearing the case were more concerned whether the program can be challenged at this stage.

The case before a three-judge panel at the U.S. Circuit Court of Appeals for the District of Columbia centers on Interior's approval of the outer continental shelf (OCS) oil and gas leasing program for 2007-12.

In June, Interior Secretary Dirk Kempthorne approved a final plan, along with a 1,400-page final environmental impact statement. That document scheduled 21 lease sales in three regions of the country, including several off Alaska that form the heart of the court case. The department will conduct further environmental analysis before auctioning leases in selected areas.

William Snape, arguing for the Center for Biological Diversity, kicked off the hearing by trying to say that Interior failed to consider the effects of leasing on endangered species. But Chief Judge David Sentelle quickly cut him off and questioned whether the group has standing to bring the case. Sentelle repeatedly asked what imminent harm would be caused to Snape's clients by the leasing program.

Snape said CBD members use the area for recreation and wildlife watching. He noted that one lease sale has already happened -- Chukchi Sea Lease Sale 193 -- and argued that actions in preparation for drilling before leases are issued, such as overflights, ship strikes and seismic surveys, could cause harm. He also noted that global warming has already begun to harm the areas off Alaska.

Judge Judith Rogers said most court cases challenging leasing do so at the second stage -- lease sales -- and asked why the challenge is needed at this point. Sentelle joined in, asking, "Wouldn't it be more suitable for judicial review at the next stage?"

Snape argued that leases are small areas and would be analyzed individually, rather than examining how the overall program would affect species listed under the Endangered Species Act. "This is the only opportunity to look at the big picture," he said.

The Native Village of Point Hope, Alaska, also challenged the program. Peter Van Tuyn argued for the village that the program is a "massive expansion" from the previous five-year plan.

Interior, which by law must take into account the relative environmental sensitivity of OCS areas in crafting its drilling program, addressed that requirement by looking only at nearby shorelines, saying they would be affected by an oil spill. But Van Tuyn said the coasts are at least 25 miles from the leasing areas, and that it is "simply irrational" to equate shorelines with ice-dominated sea environments that are home to whales, polar bears, walruses and seabirds.

Sentelle asked Van Tuyn if the department could do additional environmental review at a later stage. Van Tuyn responded that while it would be theoretically possible, "in this case it is not," and that there would be insufficient time later to gather critical baseline environmental data. He also said a National Marine Fisheries Service expert has said the plan's schedule would not leave enough time for necessary environmental analysis.

Van Tuyn said the department's attitude is "Just trust us, we're going to take care of this," but Judge Douglas Ginsburg retorted, "It's not trust us, it's sue us."

'Once this train starts rolling, you can't stop it'
Sambhav Sankar argued on behalf of the government that the time is not ripe to be reviewing such ESA and National Environmental Policy Act claims. Judge Rogers noted that the department chose to prepare and include an environmental impact statement (EIS) with the plan. Sankar replied that the EIS is a useful bureaucratic tool but is not necessarily open for review, citing prior court decisions in similar cases. He also said additional data will be available by the next stage.

"There's going to be later opportunities for challenge," Sankar said.

The judges then repeatedly tried to pin down Sankar on whether the department would agree to allow challenges to the EIS at later stages in the leasing process, or if the government would argue later that the EIS is locked in place. Sankar said the conclusions in the EIS could be challenged at the leasing stage, but hedged that he was not authorized to guarantee that on behalf of the whole department.

Rogers asked whether the department understands why it is so important to get it right the first time. "Once this train starts rolling, you can't stop it," she said. Sankar emphasized that additional environmental information would be gathered for the lease sale stage.

Rogers also pressed Sankar on the shoreline issue. He said previous court rulings give the department a great deal of leeway in determining how the environmental sensitivity analysis should be done and that the Interior secretary included information in other parts of the plan on areas off the coasts.

Steven Rosenbaum of the American Petroleum Institute intervened on the government's side. He argued that not being states, the groups do not have standing to assert their climate change claims. Greenhouse emissions would only increase by one-tenth of one percent of current U.S. emissions under the five-year plan, he added.

After the hearing, Snape expressed frustration that he didn't have a chance to argue that Interior failed to consider the impacts of global warming on the leasing areas or the economic cost of the emissions. He said that if the plan isn't corrected now, later steps will build upon the flawed analysis and they may not be allowed to challenge it later. "The Bush administration is trying to create a Catch-22 here," he said. "It's too early now, and it would be too late later."

The Alaska Wilderness League and Pacific Environment are also petitioners in the case, while many environmental groups filed friend of the court briefs.

The case is not an appeal of a district court ruling. The Outer Continental Shelf Lands Act provides for direct review before the appeals court of approval by Interior of a leasing program.

Offshore leasing return
Fairbanks Daily News-Miner, October 16, 2008; http://newsminer.com/news/2008/oct/16/offshore-leasing-return/?opinion

Alaska, local governments will benefit from sales

Alaska governments soon will see some of the financial benefits of offshore petroleum leasing, and those benefits will start flowing before any oil or gas, thanks to a change in national policy advocated by our congressional delegation.

The state and eight local governments are expecting to receive more than $29 million from the federal Minerals Management Service during each of the next two years.

The money comes from the Chukchi Sea oil leases sold by the MMS earlier this year. A ceremony in Anchorage today with Alaska's Commissioner of Natural Resources Tom Irwin and MMS Director Randall Luthi will note the state's new-found windfall, which is technically made possible by MMS's formal acceptance of the state's Coastal Impact Assistance Program State Plan.

This is partial achievement of a goal long sought by Alaska and other coastal states. The Energy Policy Act approved by Congress in 2005 directed $250 million annually between 2007 and 2010 to six coastal states based on a formula. Each state's funding is proportional to the amount of offshore revenue it generates compared to the total generated off all six states.

During the past two years, with only minimal revenues generated on federal petroleum leases off Alaska, our state hasn't done so well under the formula. With the Chukchi sale this year, that changed dramatically.

Alaska contributed a much larger percentage of the total federal revenues from offshore oil and gas work. So a much larger share will come back to the state in the next two years.

Just over one-third of the revenue sharing destined for Alaska will go to eight local governments situated around the coastline. They are the Municipality of Anchorage and seven boroughs — Lake and Peninsula, Bristol Bay, Matanuska-Susitna, Kenai Peninsula, North Slope, Kodiak Island and Northwest Arctic. (Sorry Fairbanks, too far from the coast.)

The money must be used for certain types of work, but the categories are broad — conserving coastal areas, fixing fish and wildlife habitat, implementing federally approved conservation plans and (here's the catch-all) building onshore infrastructure to meet public needs that arise due to offshore work.

Because the federal program is capped nationwide at $250 million annually, this is by no means the same as an open-ended federal offshore revenue sharing program, which is what coastal states have sought for many years.

However, it is a good start and certainly recognizes the additional costs that such development can bring to state and local governments in regions that see offshore development.

OPEC moves up meeting as crude prices continue to drop
E&E News, October 16, 2008: http://www.eenews.net/eenewspm/2008/10/16/6/

The Organization of Petroleum Exporting Countries announced today that it will move its special ministerial meeting to Oct. 24, seeking rapid action as crude has lost half its value during the past four months.

Several OPEC members have called for an output decrease to tighten supply and boost prices.

Light, sweet crude for November delivery was trading at $72.05 on the New York Mercantile Exchange as of press time today. It dipped below $69 earlier today after the Energy Information Administration reported a 5.6-million-barrel increase in crude inventory last week that doubled analysts' expectations (Greenwire, Oct. 16).

"This slow U.S. economy is seen as the main cause of the sharp slowdown in petroleum product demand this year," the cartel announced, noting that U.S. motorists drove 62.6 billion fewer miles (100 billion kilometers) during the first nine months of 2008.

Several OPEC members have called for an output decrease to tighten supply and boost prices (Agence France-Presse, Oct. 16).

Oil Below $70, a Price Last Seen in June 2007
NYT, October 16, 2008;
http://www.nytimes.com/2008/10/17/business/worldbusiness/17oil.html?_r=1&hp&oref=slogin

By JAD MOUAWAD

Oil prices plummeted on Thursday, falling below $70 a barrel for the first time in 16 months, and prompting the OPEC cartel to call for an emergency meeting next week.

The rapid decline in prices had alarmed petroleum executives and oil producers who are becoming increasingly nervous that it is undermining the stability of energy markets.

Oil prices have dropped sharply in recent weeks amid the economic crisis and lower consumption in developed nations. In New York, oil futures fell as much as 8 percent, to $68.57 a barrel, on Thursday, their lowest since June 2007. Oil has lost half its value since hitting a record closing price of $145.29 a barrel in July.

While not a quite rout, the precipitous drop undermines the elusive quest for stability that both oil producers and petroleum executives say they need to invest over the long term. Thursday’s sharp decline moved OPEC members to schedule an emergency meeting for next week to look for ways to stem the price decline. Analysts expect the cartel’s producers to reduce their production by about a million barrels a day.

The surprise announcement came a week after the Organization of the Petroleum Exporting Countries, which controls about 40 percent of the world’s oil exports, said its members would meet in November “amid growing unease over the situation.” But some OPEC members have been alarmed at the panic selling in the commodity markets and successfully lobbied for an earlier meeting.

The concern now for both producers and petroleum executives is that the fall-off in prices could crimp investments and reduce revenue. Iran’s oil minister, Gholamhossein Nozari, told reporters in Tehran on Tuesday, “I think the low price is a real damage to the future of production.”

The same question is also weighing on the mind of many energy experts: Is the oil industry about to repeat the errors of the past, and slash investments as prices fall? Since oil is a cyclical business, some energy analysts fear that today’s downturn could set the stage for a new price rally if oil companies cut their exploration spending.

From its inception more than a century ago, the oil industry has gone through countless cycles, and oil companies have often underinvested in periods of falling prices. The price collapse of the 1980s forced companies to slash investments and prompted a wave of mega-mergers through the sector.

But the industry’s retrenchment in the face of lower prices left the world scrambling for oil when demand from Asian and Latin American economies soared.

Now, after nearly a decade of growth, the economic slowdown means there will be less demand for energy in the foreseeable future.

These concerns were on the minds of petroleum executives who gathered at an industry conference in Venice last weekend. The titans of the oil industry worried that a prolonged recession, tighter credit and lower energy consumption would mean slower growth in energy supplies in coming years. The credit freeze has already forced some projects to be scaled back, some energy analysts said.

“This is a real test,” Jeroen van der Veer, the chief executive of Royal Dutch Shell, said during an interview on the sidelines of the conference. “Some people will be overstretched and there will be some delays in some projects.”

But if companies pared their investments, they would set the stage for a surge in prices when demand eventually picks up, said J. Robinson West, the chairman of PFC Energy, the consulting company that held the conference.

Many experts have warned that such a squeeze may occur in the next five years, and could once again propel oil prices into triple-digit territory. In the last decade, the growth in oil consumption has outpaced the ability of producers to increase production.

A senior oil executive said that the industry was determined not to let history repeat itself. Many oil executives do not expect the current crisis to fundamentally alter the fact that developing economies will need more energy. By 2030, more than three-quarters of the world's energy will still be derived from hydrocarbons, including oil, gas and coal.

"Investments in exploration and production are very much linked to the price of oil," said Didier Houssin, the head of oil markets at the International Energy Agency, which advises industrial nations on energy policy. "What we can fear is that the financial crisis leads to delays in many projects."

The drop in prices has already created problems for producers, who have become accustomed to high prices. Iran and Venezuela both need oil prices at $95 a barrel to balance their budgets, Russia needs $70, and Saudi Arabia needs $55 a barrel, according to Deutsche Bank estimates. Algeria's oil minister, Chakib Khelil, estimated on Thursday that the "ideal" price for crude oil was $70 to $90 a barrel.

In Russia, which is not part of OPEC, the drop in prices is threatening to the country's ability to bolster production. The Russian government has reportedly agreed to allocate $9 billion to its four major producers — Lukoil, Gazprom, Rosneft and TNK-BP — to help them cope with investment needs amid the credit crisis.

In the United States, Chesapeake Energy, a gas producer, has recently indicated that it will reduce its capital investments over the next few years in response to falling prices.

Global oil demand is undeniably slowing, particularly in developed nations. Japanese oil consumption dropped 12 percent in August, while in the United States, demand has been cut by 8 percent in September.

Still, consumption is growing in developing nations, albeit at a slower pace. The International Energy Agency expects global oil demand to grow by just 400,000 barrels a day this year, to 86.5 million barrels a day. At the beginning of the year, the agency was expecting growth of more than 2 million barrels for 2008.

"We pretty much know where supplies are going to come from in future years, but today the biggest uncertainty is demand," the chief executive of the French oil company Total, Christophe de Margerie, said.

Drill-baby-drill, meet $75 oil
CNN Money, October 16, 2008; http://money.cnn.com/2008/10/14/news/cost_of_drilling/?postversion=2008101611

As the price of crude tumbles from the summer's record highs, what will become of the push to increase drilling?

By Ben Rooney

With the price of oil falling below $75 a barrel Wednesday - down about 49% from last summer's highs - the industry's battle cry is sounding less and less convincing.

But falling oil prices are not the only reason why the air is coming out of the drilling balloon. The credit crunch has hampered oil companies' ability to fund big-ticket drilling projects. Meanwhile, the prices that producers pay for raw materials and labor remain high.

"Any project that assumed oil would average $100 over the next 10 to 20 years is being seriously reconsidered at this time," said Richard Ward, senior cost analyst at IHS Cambridge Energy Research Associates (CERA).

As recently as July, tapping deep water sources and extracting crude from Canadian oil sands - two very expensive production methods - were seen as economically viable ways to deal with the energy crisis. At that time, the price of oil was above $140 a barrel.

Now that the price has fallen below $75 a barrel, and could go even lower, many experts say the future of these projects is uncertain.

Prices.
Oil companies are quick to point out that big drilling projects are long-term investments, which are not based on today's oil price, but on what they think the price will be in the future.

Indeed, some deep water projects have a life span of 20 to 30 years. And some producers expect to be mining Canada's oil sands for up to 40 years.

"Companies in the industry know that prices are volatile," said Ron Planting, an analyst at the American Petroleum Institute. "They probably did not plan projects that would only work at $140 a barrel."

Greg Stringham, a spokesman for the Canadian Association of Petroleum Producers, said most oil companies have kept their price scenarios below $100 a barrel.

While producers have had to make "massive adjustments to their budgets" in light of the decline in oil prices, companies are not backing out, Stringham said.

Mickey Driver, a spokesman for Chevron Corp. (CVX, Fortune 500), said the company has not "changed the scope of our current capital program," and that "we take a long-term view in our business planning."

A spokesman for Royal Dutch Shell (RDS.A) declined to comment because the company is in a 'quiet period' before they release quarterly results.

Still, if prices remain low for a prolonged period of time, many analysts expect oil companies to start cutting losses on some high-end projects.

For example, projects based in the Canadian oil sands, where it can cost about $70 to extract one barrel of marketable oil, could be among the first to feel the impact.

If the price of oil falls firmly below $60 a barrel, "you may see some consolidation in the Canadian oil sands," Ward said.

Given rapidly declining prices, tight credit conditions, high input costs and weakening demand - the outlook for bold new oil exploration is grim.

Companies that aren't able to weather a protracted low oil price scenario may find themselves selling operations.

"Expect some forced and unforced deals to be done," said Neal Dingmann, senior energy analyst at Dahlman Rose & Co. in Houston.

Credit.
Falling oil prices are not the only economic challenge facing the oil industry.

Stringham points out that the credit crisis has hampered many oil producers ability to get affordable funding for big drilling operations.

While the credit markets have begun to show signs of a tentative thaw, the current climate remains difficult for borrowers.

Many of the oil industry's big offshore drilling projects are "highly levered," Dingmann said. And as long as credit remains tight, those projects will be on hold, he said.

Costs.
In addition to credit concerns, oil companies are facing high costs for raw materials and labor.

Over the last four years, capital costs have increased more than 100% for the average exploration project, according to IHS/CERA data.

A sharp increase in the price of steel has been one of the biggest problems. The raw material is used to build drills, pipelines and tankers that make oil exploration possible.

Until recently, steel prices have been climbing along with copper and other key industrial materials.

But as the global economy slows, particularly in the developing world, steel prices on the London Metal Exchange have come down 60% from their July peak. And that could spell relief for oil producers.

Labor is another story.

The oil business is "the epitome of the boom-bust market," said Stephen Schork, independent analyst and publisher of the industry newsletter The Schork Report.

When the market was booming at the turn of the last century, labor was not a problem. But much of the industry's workforce left the business at the end of the last boom and went on to other careers, Schork said.

Given the dim prospects for a boom in the near future, those workers are not likely to return.

"They definitely have manpower shortage in the sector," Schork said.

How Congress and Candidates Would Create Jobs
US News and World Report, October 15, 2008; http://www.usnews.com/blogs/the-inside-job/2008/10/15/how-congress-and-candidates-would-create-jobs.html

Liz Wolgemuth

With the country's unemployment rate at 6.1 percent and likely to tick higher, job creation is key to any economic package introduced by presidential candidates or congressional leaders. Here's a look at some aspects of recent proposals aimed at creating more American jobs:

Sen. Barack Obama: The Democratic candidate for president announced an economic plan Monday that would include a $3,000 tax credit for businesses for each full-time domestic job created between 2009 and 2010, USA Today reports. Obama's 10-year plan would include spending $150 billion on alternative energy projects that would introduce 5 million new jobs, as well as create jobs with infrastructure spending.

Sen. John McCain: McCain yesterday introduced a rescue plan that would foster job creation through what he called "the most effective way a president can do this—with tax cuts that are directed specifically to create jobs and protect your life savings," the Los Angeles Times reports. The senator's plan would include cutting the maximum tax rate on long-term capital gains to 7.5 percent for two years. McCain's longer-term job creation plan includes lower corporate taxes, technology investment incentives, and controlling operating costs for small businesses.

House Speaker Nancy Pelosi: The California Democrat recently announced plans for an economic rescue plan that would most likely provide for job creation through a major road, bridge, and highway rebuilding program.

House Minority Leader John Boehner: The Ohio Republican wants Congress to speed up the process for granting energy companies leases to drill on the Outer Continental Shelf—a move that he says would speed up related job creation—and lower corporate taxes. Politico has the full text of Boehner's letter to Pelosi detailing the plan.

MARKET WATCH: Falling demand pulls down energy prices
Oil and Gas Journal; October 15, 2008;
http://www.ogj.com/display_article/342690/7/ONART/none/GenIn/1/MARKET-WATCH:-Falling-demand-pulls-down-energy-prices/

Sam Fletcher

HOUSTON, Oct. 15 -- Having escalated Oct. 13 as US and European governments moved to revive a shaky economy, energy prices fell Oct. 14, wiping out most of the previous session's gain with traders expecting a major drop in demand in the coming months.

"Premarket, crude is trading down on expectations that economic weakness will hamper global crude demand. In fact, some oil-producing countries such as Iran and Saudi Arabia have been seeing signs of government spending cutbacks on infrastructure and expansion projects, which were initially budgeted with expectations that oil prices would remain high," said analysts Oct. 15 in the Houston office of Raymond James & Associates Inc.

In a briefing on a new economic report by Chatham House, home of the Royal Institute of International Affairs in London, officials said: "The global financial system has suffered a once-in-a-century meltdown that almost brought the world economy to a halt in late September. Confidence and trust have been shattered. In spite of concerted and extraordinary efforts on the part of central banks and political leaders, including recapitalizing the banks, it is not yet certain that the waves of panic and destruction have been halted. Many of the repercussions have yet to emerge, including possible legal action as well as economic damage."

Even earlier the leading economies with in Organization for Economic Cooperation and Development appeared to be heading into "an unusually synchronized recession, driven by the simultaneous collapse in consumer and business spending. This will now get worse," said Chatham House analysts.

They said, "This time round, the outcome for China will be much more important because it has doubled its share of world GDP over the last decade and is now the single largest contributor to global growth." Chatham House surmised, "Without doubt, this crisis will require substantial, persistent, and coordinated global efforts to turn around—possibly including yet more extraordinary 'out of the box' measures."

Olivier Jakob at Petromatrix, Zug, Switzerland, argued, however, "For all the doom and gloom, we also need to realize that oil prices have had a significant retreat. The economy does not look good, but many made the mistake of underestimating the impact of high prices on demand, and we will need to be careful to not discount too greatly the impact that lower prices can have on demand."

Jakob expects at least some of that pent-up demand to materialize. "The US refining system is currently pricing maximum output of distillates and minimum output of gasoline, and when combined with the sharp price falls at the US gasoline pump (which has a potential to revive some demand) we view the gasoline cracks to be currently seriously undervalued," he said.

Companies cut spending

Some energy companies are already preparing for reduced demand by cutting budgets. "E&P spending cuts make it clear to us that operators will not simply 'drill through' this period of natural gas price uncertainty," said analysts at Pritchard Capital Partners LLC in New Orleans. "We have begun to see spending reductions or deferrals that will negatively affect oil service demand. Key markets are oversupplied with natural gas, with prices below $4/MMbtu in the Midcontinent, West Texas, and the Rockies."

Pritchard Capital analysts reduced earnings estimates for 11 oil service companies due to "a far less bullish environment in the quarters ahead." They said, "We expect service companies to communicate varying degrees of uncertainty regarding their outlook and give subdued guidance for 2009 in their earnings calls." They expect the US rig count to pull back to 1,830 rigs from a peak of 2,031 on Sept. 12. "However, a 20% pullback would be within reason if global markets experience a protracted recession. Recent history offers several examples of the US rig count declining by more than 20% from peak to trough, including a 48% downturn in 1991-92, a 52% decline in 1998-99, and a 43% pullback in 2001-02," Pritchard Capital Partners reported.

Pritchard Capital analysts said, "Service companies could also struggle with cost challenges as oil country tubular goods prices are expected to continue to increase. A ramp-up in production both in the US and abroad is likely to alleviate shortages, but this will likely occur only after demand has ratcheted down."

The analysts said earnings will tend to hold up better for companies with less North American exposure and less drilling-related exposure. "We expect national oil companies to reduce spending plans to reflect an environment with lower commodity prices and reduced energy demand, but we anticipate that this will be moderated by their focus on strong long-term fundamentals. Also, companies driven by factors other than rig count, such as those engaged in production-related or infrastructure-building activities will be more insulated from earnings declines, in our view."

Analysts at Friedman, Billings, Ramsey & Co. Inc. (FBR) in Arlington, Va., said recent meetings with the management of three independent production companies "suggests willingness at this juncture to think about 2009 capex plans" based on average prices of $80/bbl for oil and $7.50/Mcf for natural gas. With the current capital constraints in the financial sector, they said, "Hedging costs are expected to increase and liquidity on the long end of the curve is expected to decrease. Management teams also expect bank debts, whenever possible, to be repriced to match funding cost increases. Also, bank debt capital available to the industry in general and smaller players specifically is expected to go down reasonably."

At midday Oct. 14, the US Minerals Management Service said 81 of the 694 manned production platforms in the Gulf of Mexico are still without crews that were evacuated ahead of Hurricane Ike. Officials said 38.9% of the oil and 37% of the natural gas usually produced from federal leases in the gulf are still shut in.

In its oil market report for October, the Organization of Petroleum Exporting Countries said the average price for its basket of benchmark crudes dropped $15.56 to an 8-month low of $96.85/bbl and continued to trend sharply lower to a 12-month low of $72/bbl Oct. 13 because of an "increasingly weaker outlook" for the world economy and demand growth. OPEC's basket price has dropped almost $69/bbl in little more than 3 months.

OECD oil demand growth has declined more than 1.8% or 1 million b/d this year primarily because of reduced consumption in the US. Non-OECD demand growth increased 1.2 million b/d through September. Total world oil demand growth for 2008 has been reduced to half of the initial forecast to 600,000 b/d. That is expected to continue in 2009, and OPEC has reduced its estimate of global demand growth by 1 million b/d to 800,000 b/d next year.

Energy prices
The November contract for benchmark US light, sweet crudes fell $2.56 to $78.63/bbl Oct. 14 on the New York Mercantile Exchange. The December contract dropped $2.73 to $78.95/bbl. On the US spot market, West Texas Intermediate at Cushing, Okla., was down $2.56 to $78.63/bbl. November heating oil lost 8.13¢ to $2.26/gal on NYMEX. The November contract for reformulated blend stock for oxygenate blending (RBOB) declined 3.28¢ to $1.88/gal.

Natural gas for the same month gained 3.9¢ on NYMEX. On the US spot market, gas at Henry Hub, La., rose 9¢ to $6.71/MMbtu.

In London, the November IPE contract for North Sea Brent crude dropped $2.93 to $74.53/bbl. Gas oil for November lost $2 to $744.25/tonne.

The average price for OPEC's basket of 13 reference crudes gained $1.53 to $73.49/bbl on Oct. 14.

In Gas Prices, A Silver Lining
Washington Post, October 15, 2008; http://www.washingtonpost.com/wp-dyn/content/article/2008/10/14/AR2008101403164.html

Demand Dries Up as Economy Slows, Providing a Rare Spot of Relief

By Steven Mufson

U.S. gasoline prices are tumbling because of uncertain economic prospects and sagging consumption, providing a small bit of good news for Americans in a month of financial turmoil.

The nationwide average for regular-grade gasoline fell to $3.16 a gallon, down 63 cents from a month earlier, according to AAA.

"The bottom is falling out of them," said John Townsend, a spokesman for the auto club. He added, "The big question on the table is: With prices falling, will people begin driving more?"

So far, there is little sign of that. A report last week by MasterCard said U.S. gasoline consumption is still running about 5 percent below last year's level. Townsend noted that while pump prices have dropped sharply, they are still higher than they were a year ago. Further, he said, an economic slowdown could mean fewer shopping trips this holiday season.

U.S. motorists' driving habits are easing tightness in global petroleum supply balances.

The International Energy Agency last week trimmed its worldwide oil-demand forecast by 240,000 barrels a day for 2008 and by 440,000 barrels a day for 2009. The IEA said, "The demand impact of weaker economic conditions and high prices during the summer -- when oil prices reached an all-time peak -- was more marked than expected, notably in the United States."

The agency said that "demand in the U.S. may be poised for a more permanent, rather than transient, downward trend." Citing a shift to more-efficient vehicles, changes in driving habits and the declining appeal of suburban living, the agency said that "sustained high prices and sluggish economic activity are arguably likely to reinforce the current wave of structural adjustments."

Separately, an Energy Department report recently said that in the four weeks ended Oct. 3, overall U.S. petroleum demand averaged 18.7 million barrels a day, the lowest level since June 1999.

The stagnant demand in industrialized nations and the prospect of a substantial recession have pushed down crude oil prices. The price of a barrel of crude oil on the New York Mercantile Exchange fell by $2.56 yesterday, to $78.63, lower than it was a year ago.

Gasoline prices have not dropped as fast as crude oil, however, as refiners and marketers attempt to widen profit margins and bolster their financial condition. Earlier this week, independent refiner Tesoro said that it would report third-quarter earnings of $1.70 to $1.90 a share, better than some analysts expected. Tesoro, whose stock price had plunged 82 percent for the year through Friday, said profit margins for all petroleum products expanded. Its shares rebounded somewhat, closing yesterday at $11.08.

The price of crude oil has been closely tracking the mood on stock and credit markets as investor sentiments about whether the global financial rescue plan will prevent a sharp economic contraction swing back and forth. In recent weeks, the prices of oil-company shares have cratered along with the rest of the market.

The decline in crude oil prices has come in spite of several factors that usually push prices up, including low inventories and the prolonged disruption of oil production in the Gulf of Mexico caused by hurricanes Gustav and Ike more than a month ago. The Interior Department's Minerals Management Service said yesterday that only 61 percent of oil production in the Gulf of Mexico has been restored as companies struggle with repairs to platforms.

Ahead of the Bell: Offshore driller backlogs
CNN Money, October 15, 2008;
http://money.cnn.com/news/newsfeeds/articles/apwire/1cc5ce253f81c530330a55e0180debbc.htm

Analyst says record backlogs should keep offshore drillers well funded

NEW YORK (Associated Press) - A JPMorgan analyst said Wednesday that record cash backlogs should keep offshore drillers well funded against capital commitments.

Analyst David Smith said all drilling companies, with the possible exception of Pride International Inc., should be cash flow positive in 2009.

He said Transocean Inc., Diamond Offshore Drilling Inc. and Noble Corp. should have cash backlogs in significant excess of capital requirements through 2012.

"In our view, these companies are best positioned as consolidators should a difficult credit environment create distressed situations in the fleet of new rigs under construction," Smith wrote in a client note.

Smith said he estimates that Pride and Rowan Companies Inc. have the smallest near-term and mid-term liquidity cushion.

The OCS - Our Nation's Piggy Bank

The Huffington Post, October 14, 2008; http://www.huffingtonpost.com/tom-donohue/the-ocs---our-nations-pig_b_134479.html

Tom Donohue

Tomorrow night at Hofstra University presidential debate moderator Bob Schieffer is sure to ask: "How does the economic crisis affect your plans for the future?" It will be the third debate in a row that candidates have heard the question, and it isn't getting any easier to answer. Having spent countless hours planning, no one wants to have to think about scrapping half their platform before they even get the job.

So we're going to help them. We're going to give them more than $1.56 trillion to fund future priorities. And we're going to do it by opening up a piggy bank that has been locked up for almost three decades, a piggy bank called the Outer Continental Shelf (OCS).

The OCS contains 85 billion barrels of oil. For each barrel of oil that is produced the U.S. government receives a royalty payment. Since the OCS has been off-limits for three decades the royalty amount has not yet been established. So let's look at Alaskan oil where the industry pays a royalty of $18.36 per barrel. Assuming the royalty will be similar, it is a simple calculation of $18.36 per barrel times 85 billion barrels that gives us our base funding number -- but wait.

These numbers are conservative. First, the United States has not physically inventoried the area in decades. Second, with new equipment and drilling techniques it is very likely to have much more than 85 billion barrels. This has certainly been the case in other areas such as Alaska. Thus, we could be talking about trillions of dollars in royalty payments to the citizens of the United States.

On top of the royalties, there would be corporate taxes in the hundreds of billions of dollars and income taxes on the thousands of jobs that would be created. Furthermore, these calculations do not even include the royalty payments on the 420 trillion cubic feet of natural gas in the OCS.

Congress, in the last few weeks, let the prohibitions on drilling in the OCS expire; however, many members want to reimpose them in the next Congress. Nothing could be more foolhardy, especially at a time when the revenue is needed. At some point this nation needs to pay for what it spends.

In addition to revenue there is another huge benefit. The 85 billion barrels in the OCS would also offset purchases of foreign oil. Even if oil dropped to $50 a barrel the United States would reduce its purchases of foreign oil by $4.25 trillion over the life of the OCS.

For decades, many in the business community have pushed to open up the OCS and have been frustrated by the fact that Congress locked up these reserves. Nevertheless, like many thing in life, it has worked out for the best. We now have a piggy bank with huge savings, just when we need it most.

Whistleblower: Oil watchdog agency 'cult of corruption'
CNN, October 14, 2008; http://www.cnn.com/2008/US/10/14/oil.whistleblower/

From Dan Simon and David Fitzpatrick

HONOLULU, Hawaii (CNN) -- Bobby Maxwell kept a close eye on the oil industry for more than 20 years as a government auditor. But he said the federal agency he worked for is now a "cult of corruption" -- a claim backed up by a recent government report.

"I believe the management we were under was showing favoritism to the oil industry," Maxwell told CNN.

Maxwell is referring to a tiny agency within the Department of the Interior called the Minerals Management Service, which manages the nation's natural gas, oil and other mineral resources on federal lands.

A report, conducted by the Interior Department's inspector general and released earlier this month, found that employees at the agency received improper gifts from energy industry officials and engaged with them in illegal drug use and inappropriate sexual relations. It looked at activities at the agency from 2003 through 2006.

Maxwell said the report doesn't surprise him. The agency, he said, is corrupt "top to bottom." Watch a failure to "protect America's interests" »

"It sounds like they forgot they work for the government," he said. "It's disgusting. ... There's no excuse for that. Those people should not be working in those positions at all.

"They crossed a lot of lines that should never have been crossed," he said. "They lost all objectivity."

Maxwell was in charge of keeping track of the millions in royalty payments owed taxpayers by oil and gas companies who explored and found oil on U.S. government lands.

He estimates he and his team were responsible for saving the government close to $500 million in royalties, either underpaid or somehow skipped by oil and gas companies, over the years.

He received the Interior Department's highest award in 2003 for his work. But not long afterward, his job was killed.

He believes it was retribution for his cracking down on Big Oil and blowing the whistle on what he believes was a "cult of corruption" within the agency. The Interior Department denies that, saying his job was reorganized as part of routine restructuring.

Just before he lost his job, he said, one of his superiors in Washington ordered him not to investigate why Shell Oil had raised its oil transportation costs. Maxwell said it jumped from 90 cents to $3 a barrel without adequate explanation. The government paid Shell to transport oil from offshore platforms.

When asked why a government worker would tell an auditor not to investigate, he said: "I believe it started from the top down," he said.

Shell Oil told CNN it "pays the same rate any shipper does" and that it has "never engaged in fraudulent transactions or entered into sham contracts as Mr. Maxwell alleges."

Maxwell, a registered independent, said the shift in attitude at the agency began about seven or eight years ago, about the time the Bush administration came into power. He said he was discouraged from aggressively auditing oil companies.

"Laws and regulations were not applied, also not enforced," he said.

The inspector general's 27-page summary says that nearly a third of the roughly 60 people in Maxwell's former office received gifts and gratuities from oil industry executives.

Two received improper, if not illegal, gifts at least 135 times, the report says. It goes on to describe a wild atmosphere in which some staff members admitted using cocaine and marijuana.

In addition, two female workers at the Minerals Management Service were known as the "MMS chicks" and both told investigators they had sex with oil industry officials they were supposed to be auditing.

One e-mail from a pipeline company representative invited government workers to a tailgating party: "Have you and the girls meet at my place at 6 a.m. for bubble baths and final prep ... Just kidding."

Inspector General Earl Devaney said in a letter to Interior Secretary Dirk Kempthorne accompanying the report that it details "a textbook example of improperly receiving gifts from prohibited sources."

Maxwell is now retired from the government and teaches at the University of Hawaii. He said it was just a matter of time until the agency's behavior was exposed. He feels vindicated now in the wake of the inspector general's report, but is still disgusted by what he was happening at the Minerals Management Service.

"Their job is to protect United States taxpayers' interest. It's like they completely forgot that, like they just became part of the oil companies," he said.

The Interior Department said it could not comment on Maxwell's specific allegations or removal, saying his former supervisor no longer works for the Interior Department either.

Kempthorne said he was "outraged" by the disclosures in the inspector general's report and that the actions "of a few has cast a shadow on the entire agency."

But the department said there is no evidence taxpayers lost money as a result of unethical behavior between government workers and the oil and gas industry.

Maxwell doubts that.

The former auditor said he'd love to put all the government royalty records under his magnifying glass.

"I think the government should be transparent. We are for the people, by the people. This is the government. We're here to serve," he said.

Maxwell has filed a whistleblower lawsuit against the Kerr-McGee Corp., an energy company involved in oil and gas exploration. In it, he claims the company defrauded taxpayers out of millions in oil royalty payments.

The company denies the accusation. If Maxwell wins, the government would recieve about $40 million in additonal revenue and Maxwell would be entitled to about a third of that.

Follow through on drilling
Augusta Chronicle, October 14, 2008; http://chronicle.augusta.com/stories/101408/edi_479353.shtml

The ban is gone; now it's time to smooth the process to get energy flowing

With market turmoil, the rescue package and presidential politics dominating the news, it was hardly noticed that Congress' 27-year-old ban on offshore oil and natural gas drilling lapsed on Sept. 30.

Try as it might, the Democrat-controlled House of Representatives could not renew the supposedly sacrosanct prohibition. As fuel and energy prices soared, the public's growing demand to "drill here, drill now" was too loud to ignore, especially with elections only weeks away. For a change, the public interest took precedence over the special interests of enviro-extremists.

We wish this meant that offshore oil and natural gas would soon be flowing, reducing our dependence on foreign energy supplies, but it doesn't. It is fair to say, however, that scrapping the ban is a crucial first step in getting that to happen.

Other hurdles remain. One is that the regulatory process the Interior Department requires before issuing offshore leases to oil companies can take five years, then several more years to build the rigs. It could be nearly 10 years before any oil or gas would begin to flow.

Another hurdle is that there is little incentive for coastal states to allow drilling off their shores, because as the law now stands Washington gets the lion's share of tax revenues. Environmental legal challenges could further stall development.

If Americans are to get the benefits of offshore drilling anytime soon -- say, in three to five years -- it's clear the regulatory process must be accelerated, curbs put on frivolous legal challenges and the states allowed a fair share of the revenue.

All these issues are addressed in U.S. Sen. Jim DeMint's comprehensive "Drill Now" energy bill. A bill similar to the South Carolina Republican's is being pushed in the House by Minority Leader John Boehner, R-Ohio.

Of course, DeMint and and Boehner do not expect movement on their legislation this year. But they do next year even if, as expected, Democrats maintain control of Congress. Democrats could not ignore grass-roots demands to drop the drilling ban. They -- and we -- need to follow through.

Many see prices on rise again once financial crisis settles
Greenwire, October 14, 2008; http://www.eenews.net/Greenwire/2008/10/14/4/

Nathanial Gronewold

NEW YORK -- Worsening economic conditions, tempered by the aggressive action of the U.S., European and Asian governments to revive capital markets, are causing greater uncertainty about future oil prices among traders, analysts and economists.

Projections have shown energy prices falling as demand for oil in the developed world stayed steady or declined. Demand for crude slid 6.4 percent in July as compared to a year earlier, the lowest figure since 2003, according to the Energy Department. The effect was exacerbated by the collapse or near collapse of several keystone banking institutions, and the unprecedented bailout efforts by the federal government sent prices diving as traders worried that a deep recession would further exacerbate demand destruction.

But lingering supply worries, and the possible downward pressure on the value of the U.S. dollar in the wake of record debt spending, could send prices higher again. That's especially true if, in the near term, the Organization for Petroleum Exporting Countries (OPEC) makes good on talk to lower production in an effort to keep prices at about $100 a barrel.

"The downward revisions to demand will widen the global supply/demand surplus both in the current period and going forward, increasing pressure on OPEC to trim output in order to rebalance the market," Citi commodities analyst Tim Evans predicted.

For most of 2008, weak activity in the stock market tended to push energy prices higher, but the nosedive in stock valuations last week sent commodities prices plummeting, as well. Many commodity indexes actually performed worse than standard equity indexes, especially those tracking agricultural prices, leading many analysts on Wall Street to warn that the commodities' bull run was over and a return to traditional volatility could be expected in the months ahead.

But bold statements by finance ministers of the world's major economies during their meeting in Washington last weekend were followed by a dramatic stock market rebound, sending the Dow Jones industrial average up by a record 936.42 points yesterday. That renewed optimism lifted energy and most other commodities, too. West Texas Intermediate oil prices rose by 4.5 percent yesterday, to settle at $81.19 a barrel, just when market watchers were expecting them to slip further below $80. Still, that's a far cry from the peak of $147.27 a barrel they reached on July 11.

Overall, the international oil and commodities markets are in a state of confusion. Just yesterday, Goldman Sachs, which has been bullish on oil prices, warned that the price for a barrel of crude could slip to about $50 next year if the United States suffers a severe recession, pushing global economic growth down sharply. Goldman now estimates that oil will close at about $70 a barrel by the end of 2008, down from the $115 it originally predicted.

Other investment banks disagree. Last week, Merrill Lynch dropped its oil pricing forecast for 2009, but it still expects prices to average about $90 a barrel next year. Analysts at Citi forecast oil to fluctuate between $70 and $80 a barrel for the rest of 2008, but warn that prices could swing higher fairly quickly.

With the uncertainty dominating all markets, leading to dramatic price swings in most assets, many are predicting that the historic run-up in commodities prices will resume once the fallout from the financial crisis settles.

Oil production in the Organisation for Economic Co-operation and Development (OECD) countries continues to decline, and many major new finds like those off the coast of Brazil will barely replace expected drops in output from giant fields in Mexico and the North Sea. Nigeria still produces 1.5 million barrels a day less than its OPEC quota, due to political instability there.

Government data also show that crude imports in China rose by 10 percent in September. While no one expects China to emerge from the deteriorating global economic situation unscathed, demand for energy and raw materials is expected to continue to grow there.

"Is the commodity super-cycle over? We do not think so," said Francisco Blanch, chief commodity strategist at Merrill Lynch, in a note to clients.

Many analysts, including those at Merrill, now see oil prices jumping up and down in a yo-yo fashion as the financial crisis and the coordinated responses by central banks play out. Slowing economic growth will send prices lower, but government interventions to shore up their financial systems could just as quickly buoy optimism, sending commodity prices up again.

"We see global oil markets behaving as erratically as the Baltic Dry Index [a daily average of prices for shipping raw materials] in the coming years," Blanch wrote. "Whenever economic activity starts to recover, energy demand will likely start to strengthen and put upward pressure again on prices."

Long-term supply constraints loom

If there is a consensus view from London and Wall Street, it's that oil demand in most of the developed world will continue to slow, especially in the winter months. Barring unforeseen major supply disruptions, it is unlikely that prices will return to $100 a barrel or higher for the rest of 2008 and much of 2009, analysts suggest. Most are forecasting a price range of $65 on the low end to as high as $90 a barrel.

But longer-term, potentially serious supply constraints are looming just beyond the horizon in the years ahead. Some analysts predict that weakening prices could slow the development of new unconventional oil reserves in the Canadian oil sands, possibly depressing future North American output. And the recent decision by Congress to open up much of the outer continental shelf to drilling is not expected to affect pricing much, as the offshore fields will require some time before they can begin producing.

Demand for oil and raw materials in emerging markets like India and China is also expected to continue its growth, if less robustly than in the past. China's net imports of oil and food continue to expand, and that country is now a large net importer of all base metals, according to data from Barclays Capital.

Prices could once again track upward if global economic conditions improve, and if the major oil producing countries continue to underinvest in new output or even deliberately cut production to head off slowing demand.

"Supply side weakness means, in our view, that prices are also going to have difficulty sticking below $90 a barrel for too long," said Paul Horsnell at Barclays Capital in a note.

Dollar's value

The biggest lingering uncertainty in the near term seems to be the value of the U.S. dollar and its effect on oil prices.

A sliding U.S. dollar value tends to push the cost of oil, which is traded internationally in dollars, higher as investors seek safety from the currency's decline and as producers come to expect higher prices to offset the dollar's depreciating value. Many say that this effect played out again last week. As the economic crisis intensified, struggling U.S. financial institutions reportedly sold off assets in other currencies in a move to boost domestic capital reserves, pushing prices higher. Investors also flocked to low-yielding U.S. Treasury bills to protect themselves from stock market losses, and that likely had an effect, as well.

The recent lower dollar value also helped U.S. exports grow by as much as 13 percent, boosting confidence in the currency. The rebound in the dollar, coupled with Europe's weakening economic situation, likely contributed toward pushing oil and other commodity prices lower.

But "none of these three reasons for the dollar's modest surge look likely to continue," French economist Jacques Sapir warned in a recent paper. "The asset selling process has already gone quite far."

The main reason, he and others say, is that the huge deficit spending required by the U.S. government to inject new capital into its financial system will flood the market with dollars and depreciate the dollar's value.

Already the government had projected a deficit of about $439 billion for 2009 before the onset of the current crisis. That could now soar to as high as $1.3 trillion, or 11 percent of gross domestic product, once the new capital outlays are factored in. Moody's has already threatened to downgrade its U.S. government debt rating should Congress fail to address even greater deficits looming in the years ahead. But even a short-term reversal in the dollar's recent fortune would send oil prices higher again, depending on how confident the market is in the interventions governments are now taking to stabilize the financial world.

"The possibility of a run against the [dollar] can't be dismissed," Sapir said. "It is highly probable we will see a 5 percent to 10 percent fall in the value of the U.S. dollar in forthcoming weeks (somewhere like US 1.55 to 1.62 for 1 Euro), coupled to an inversely correlated rise in the price of oil."

All but alone, Pickens soldiers on in his oil-habit quest
The Chicago Times, October 13, 2008; http://www.chicagotribune.com/business/chi-tue-crisis-greising-pickens-oct14,0,6654037.story

David Greising

The stock market had opened down nearly 800 points Friday morning, then bounced back by 500, and T. Boone Pickens paused from describing his big idea for U.S. energy independence to tend to his investments.

"Have you done anything on equities?" Pickens asked an aide monitoring his portfolio.

Pickens instructed the aide not to do anything rash. Then, as quickly as any 80-year-old man can move, Pickens jumped back to the topic of America's energy future.

"If John McCain gets 1 million extra barrels out of drilling on the outer continental shelf, that is like Obama's 1 million hybrid cars," Pickens said. The similarity: Neither would make a dent in the U.S. dependence on foreign oil.

Pickens warns against the political and economic costs of buying $500 billion in foreign oil each year. The number used to be $700 billion, but $80-a-barrel oil has cut that.

This is the way it goes with Pickens' quest. World events keep interrupting his effort to get the U.S. to kick its oil habit. It's hard to hold the spotlight when the world financial system is melting down and a steep drop in oil prices is easing the public alarm about energy costs.

Pickens will soldier on, though, at a town-hall-style meeting at Navy Pier on Tuesday.

Call him the Cassandra in cowboy boots. Like the princess of Troy, Pickens is blessed with a vision of the future and cursed by the fact that he can't get anyone to act.

He met with Obama. He met with McCain. He even met with Sarah Palin, whose plan for a natural gas pipeline from Alaska to Chicago warms Pickens' heart.

And what came from those meetings? Nice photos and press releases. Not much more.

Pickens complains that the presidential candidates have talked only in general about their energy programs. McCain wants to build 45 new nuclear plants by 2030 and drill, baby, drill for oil. Obama wants wide-ranging research aimed at an 80 percent reduction in greenhouse gases by 2050.

"Neither one of them will reduce foreign oil," Pickens said. "You have to have a complete plan for the voters by Nov. 4 and tell them what you're going to do."

Trouble is, Pickens is more hat than cattle when it comes to details too. He may star in TV commercials and pen persuasive slogans, but he has yet to offer vital details or mapped out a true, national strategy.

Pickens wants a 10-year extension to the production tax credit to encourage investment in wind farms. The government should help fund a $70 billion program to tie wind energy into the electric grid. He believes $40 billion must be spent, mostly by private industry, to convert commercial trucking to natural gas. And he wants the federal government to convert to a natural-gas-powered fleet, even for passenger cars.

Still, the political and economic obstacles won't go away. The economic crisis only makes it tougher to envision any aggressive new-energy investment.

Pickens, a Texas oil man and former corporate raider, has invested in a wind farm and in a company that owns natural gas stations. But his personal political spending seems counterproductive to his cause. He backs the sort of conservative Republicans who seem to relish voting against the kind of spending and investment he promotes.

Pickens seems to realize he is ahead of public sentiment. "I have to be considered a pioneer," he said. And he's blazing a trail that, so far, not many people are following.