Week in News: February 2-February 8, 2009

California State Lands Commission Stops Renewed Oil Drilling off the California Coast
California Chronicle, February 7, 2009; http://www.californiachronicle.com/articles/view/90293

Ken Salazar: A New Era of Land Management
ABC News, February 6, 2009; http://www.abcnews.go.com/Politics/story?id=6813602&page=1

MMS awards $10.6 million to Louisiana for Coastal Restoration
Oil Online, February 5, 2009; http://www.oilonline.com/news/headlines/internet/20090204.MMS_awar.24468.asp

OCS 'frontier' future examined at DOT
Offshore, February 5, 2009; http://www.offshore-mag.com/display_article/352411/9/ONART/none/RGRPT/1/OCS-'frontier'-future-examined-at-DOT/

US Lawmakers Preparing To Draft New Offshore Drilling Laws
CNN Money, February 4, 2009;
http://money.cnn.com/news/newsfeeds/articles/djf500/200902041632DOWJONESDJONLINE000778_FORTUNE5.htm

Brady, 70 congressmen want outer shelf to remain open for oil and gas exploration
The Courier, February 4, 2009; http://www.hcnonline.com/articles/2009/02/04/conroe_courier/news/brady0205.txt

Key hurdles cleared, Cape Wind ready to rev up
Cape Cod Times, February 4, 2009;
http://www.capecodonline.com/apps/pbcs.dll/article?AID=/20090204/NEWS/902040317

Rahall plans oversight hearings on federal policy
Greenwire, February 4, 2009; http://www.eenews.net/Greenwire/2009/02/04/4/

A renewed attempt by Markey to save Georges Bank from drilling
Boston Globe, February 3, 2009;
http://www.boston.com/lifestyle/green/greenblog/2009/02/a_renewed_attempt_by_markey_to_1.html

Oil Industry Wary Of New US Interior Secretary's Policies
WSJ, February 2, 2009; http://online.wsj.com/article/BT-CO-20090202-711557.html?mod=dist_smartbrief

Former federal minerals official gets probation
San Francisco Chronicle, February 2, 2009; http://www.sfgate.com/cgi-bin/article.cgi?f=/n/a/2009/02/02/state/n155439S39.DTL

Will search for oil off coast hurt sea life?
Charlotte Observer, February 2, 2009; http://www.charlotteobserver.com/local/story/510905.html

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California State Lands Commission Stops Renewed Oil Drilling off the California Coast
California Chronicle, February 7, 2009; http://www.californiachronicle.com/articles/view/90293

Lt. Governor Garamendi Joins Controller Chiang to Thwart Drilling Deal by 2 to 1 Vote.

SANTA BARBARA – On a two-to-one vote, the California State Lands Commission, chaired by Lieutenant Governor John Garamendi, last week denied the first new oil lease in state waters in almost 40 years.

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

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

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

The Lieutenant Governor, who has consistently opposed offshore drilling, recently spoke with House Speaker Nancy Pelosi, D-San Francisco, and other members of the California congressional delegation who had significant concerns about the lease undercutting their attempts to reintroduce a federal moratorium on oil exploration off the coast.

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

"This proposal is not in the best interests of California," Garamendi said. "Approval of this lease would be the first time new offshore oil drilling leases were issued in California waters in more than 40 years -- since the 1969 Santa Barbara oil spill."

Ken Salazar: A New Era of Land Management
ABC News, February 6, 2009; http://www.abcnews.go.com/Politics/story?id=6813602&page=1

Secretary of the Interior Has Already Made Changes in Bush Administration Policies
By KEVIN CHUPKA

Like all newly minted Cabinet members, Secretary of the Interior Ken Salazar has been adjusting to life in the executive branch. Five years of sticking up for the beauty of his home state of Colorado in the U.S. Senate appears to have left him well prepared for his appointment as the nation's top conservationist.

Supervising about 70,000 employees in 2,400 offices across the country, Salazar, who oversees the Fish and Wildlife and National Park Services, as well as the Bureaus of Land Management, Reclamation and Indian Affairs, has found himself in charge of 500 million acres of land, about one-fifth of the United States.

His purview also extends to 1.76 billion acres of outer continental shelf that includes 8,300 oil and gas leases.
"I think the challenges that we face in our world are frankly more challenging today in 2009 than perhaps at anytime in my lifetime," he told ABC News anchor Bob Woodruff in his first national television interview as secretary.

Salazar Wednesday announced a restraining order on the sale of 77 oil and gas leases near national parks in Utah, saying, "There are four national treasurers which are icons that are located right in that vicinity. And, frankly, the process that was used by the BLM [Bureau of Land Management] did not even allow enough input on the part of the National Park Service or other groups to make sure that these lease sales had the right balance. Balance has to be that we need to protect our national treasuries. But, at the same time, we need to allow development to take place."

President Bush announced the opening of these leases in December, a month before he left office, a move that Salazar faults.

"You know, the Bush administration, I think believed that there was nothing that was off-limits," he said. "That it was OK to look for oil and gas under every rock, no matter where it was, either onshore or offshore in the United States. So that's the perspective. President Obama's and my perspective as secretary of interior [is that] we need to find balance. So there's no doubt oil and gas will be a great part of our energy portfolio as we move forward. But we also are going to find a balance so that we protect a special place in America."

Asked if he thought the Bush administration had that balance, he said, "I think, frankly, there was not."
While this latest issue deals with leases on U.S. land, it was offshore oil and gas deposits that made headlines during the presidential campaign, something that Salazar will now oversee.

"I believe strongly that there are [oil and gas deposits] that will be found," he said. "So we'll be seeing additional offshore drilling. But we need to make sure that we're doing it in consultation with the stakeholders, including the governors of those states. And making sure that the important environmental values and economic values in places like Florida and other places like that are being protected."

Ethics Cleanup

While the day-to-day policy work will surely take up much of his time, Salazar has also vowed to clean up a Department of the Interior that he said was left to him in ethical shambles. In a White House news conference Jan. 28, he had some harsh criticism for the department under the Bush administration, a department besieged by scandal.

"It is one of the worst examples of corruption, abuse and of government putting special interests before the public interest," Salazar told the media in that briefing.

He reaffirmed his pledge to clean up the department.

"That was about sex and drugs and alcohol being brought into a government agency at a very high level, career employees of the department, and from the violations of the law, both at the federal level and at the state level," he said. "And that is absolutely rotten. It shouldn't have happened. ... We are not going to allow ethical lapses within the Department of Interior. If those ethical lapses are brought to our attention, we will take immediate action."

The Obama administration believes it has put the department in capable hands and Salazar's record in the Senate and as Colorado's attorney general would appear to support such a notion. But some environmentalists bristled at the choice when Obama announced it back in December.

The charge was that Salazar was in the pocket of oil and coal companies and that his Senate record included votes in favor of tax breaks for Exxon-Mobil and reduced fuel standards for U.S. automobiles.

'We Will Make the Decisions That Are Right for America'

Salazar defended his record.

"I believe that there ought to be significantly increased efficiency than cars with the advance vehicle technologies that we have," he said. "And I have been a champion in the Senate Energy Committee. Or the Senate Finance Committee, in terms of pushing forward with incentives for hybrids, for plug-in hybrids, for an electric infrastructure highway that would allow us to move into that new kind of technology."

The League of Conservation Voters scored him with an average of 85 percent positive rating during his tenure in the Senate. He won election in 2004.

"I'm not here to please the environmental community," Salazar said. "I'm not here to please the industry either. You know, we will make the decisions that are right for America. And I think that when the environmental community and industry look back at the record that I have in my state, I think we have done more on the environmental side for land conservation by creating the premier land conservation program in the United States of America and my state. The preservation of and restoration of rivers, preservation of endangered species; I would ask those people who have questions to look at the record."

MMS awards $10.6 million to Louisiana for Coastal Restoration
Oil Online, February 5, 2009; http://www.oilonline.com/news/headlines/internet/20090204.MMS_awar.24468.asp

The Minerals Management Service (MMS) has awarded a $10.6 million grant to the State of Louisiana through the Coastal Impact Assistance Program (CIAP) for the Grand Lake Shoreline Protection project.

The grant will be used to construct approximately 37,800 linear feet of rock breakwater to halt erosion on the south shore of Grand Lake, located in the Mermentau Basin in Cameron Parish, Louisiana. The breakwater will be between the mouth of Superior Canal on the east and Tebo Point on the west, approximately 35 miles southeast of Lake Charles, Louisiana.

"MMS is proud to partner with Louisiana's in its coastal restoration efforts," said MMS Acting Director Walter Cruickshank. "Through the Coastal Impact Assistance Program, MMS is able to support our state partners with coastal restoration projects like the Grand Lake Shoreline Protection project."

Shoreline erosion rates in the Grand Lake area can be as high as 32 feet per year. However, this project should halt shoreline retreat and its adverse impacts on adjacent fresh marsh. The MMS grant is for final engineering and construction of the Grand Lake project, which is scheduled to be completed in about a year.

"Providing better protection to the people and the wetlands in Southwest Louisiana is a top priority," said Louisiana Coastal Protection and Restoration Authority Chairman Garret Graves. "We have indentified key projects like this one in Grand Lake and others across Coastal Louisiana that will be constructed using CIAP funds, and we will work tirelessly to put these funds to use as quickly as possible."

This project was included in Louisiana's final CIAP plan approved by MMS in November, 2007. The Grand Lake Shoreline Protection Project is one of many onshore coastal restoration projects that the CIAP has funded for the purpose of conservation, protection, and restoration of Louisiana coastal areas and wetlands.

The CIAP was created by the Energy Policy Act of 2005 and provides $250 million annually, from 2007-2010, to six eligible Outer Continental Shelf oil and gas producing states - Louisiana, Alabama, Alaska, California, Mississippi, and Texas. The funding to Louisiana included $127.5 million for each of the fiscal years 2007 and 2008. Nineteen Coastal Political Subdivisions (parishes) share in the funding of projects outlined in the state's approved plan.

OCS 'frontier' future examined at DOT
Offshore, February 5, 2009; http://www.offshore-mag.com/display_article/352411/9/ONART/none/RGRPT/1/OCS-'frontier'-future-examined-at-DOT/

Gene Kliewer,
Technical Editor, Subsea & Seismic

NEW ORLEANS -- Expanding exploration into previously restricted areas of the US outer continental shelf was the topic of the panel discussion that opened the second day of the Deep Offshore Technology International Conference & Exhibition.

Panelists were David Dismukes, associate director and professor, Center for Energy Studies at Louisiana State University; Kevin Kennedy from the Center for Energy Research; Sidney Coffee with America's WETLAND Foundation; and J.P. Chevriere of Transmar Consult Ltd.

Dismukes noted that currently the Gulf of Mexico yearly produces some 490 MMbbl of oil and 3 tcf of gas, accounting for 23% and 14%, respectively, of all domestic US production. Further, he said, this resulted in $32 billion a year over the last five years of income to the Federal government, second only to the Internal Revenue Service. However, the GoM is a mature producing area and these totals will decline without oil company access to additional parts of the OCS. These previously restricted areas, Dismukes said, are estimated by the US Department of Energy to contain 18 Bbbl of oil and 77 tcf of gas, equivalent to 30-years of consumption.

For the oil companies to take the risks involved in exploring these new areas, Dismukes said they have to make long-term commitments and to do so need not just access, but consistent governmental policies to support the development.

Kennedy pointed out that exit polls of American voters had indicated 70% favored further development of domestic petroleum resources but that the biggest hurdle to that development was in Washington, D.C. He said the specific obstacles appeared to be changes in royalty rates, increased taxes, and regulations that would shut-in about one-third of the current wells. On the plus side, he said the additional OCS development would add good, high-paying jobs.

Coffee said that OCS development would be supported by shore-based infrastructure and that the infrastructure required sound environmental platform from which to operate. America's WETLAND Foundation has organized America's Energy Coast covering the states of Texas, Louisiana, Mississippi, and Alabama to form a coalition of economic, environmental, and energy interest "to educate America, shape public policy, and speak with a shared voice in Washington" to achieve a sustainable Gulf Coast. One example of the group's efforts is a successful campaign to amend Louisiana's state constitution to dedicate the state's share of federal OCS income to hurricane restoration and coastal protection.

Wrapping up the panel, Chevriere examined the possible impact on OCS activities caused by the current financial circumstances. He said different players would be affected differently. The major oil companies historically are 80% self-funded, he said, while independent operators historically were 80% outside funded. This means the majors could continue to pursue prospects while the independents could expect difficulty in financing operations. This could affect OCS in that the independents, for the most part, dominate shallow water development while the majors dominate in deep and ultra deepwater. A cautionary factor in deepwater, however, is the low oil prices which give little incentive to assume the larger risks. The big question, he said, would be the duration of the issue, but that the industry "will find a way to exploit the OCS despite the crisis."

US Lawmakers Preparing To Draft New Offshore Drilling Laws
CNN Money, February 4, 2009;
http://money.cnn.com/news/newsfeeds/articles/djf500/200902041632DOWJONESDJONLINE000778_FORTUNE5.htm

WASHINGTON -(Dow Jones)- Federal lawmakers are gearing up to legislate a new offshore drilling plan that could restrict development in major areas of the Outer Continental Shelf, but allow some acreage previously closed to access to be opened for exploration.

House Natural Resources Committee Chairman Nick Rahall, D-W.Va., on Wednesday announced a series of hearings on offshore drilling that will explore the appetite for drilling off the nation's coasts.

Republicans and oil industry officials are concerned that the new plans Congress and new Interior Secretary Ken Salazar plan to draft will ultimately prohibit exploration in areas that show the best prospects, however.

Despite vowing to reshape the country's energy economy to move away from fossil fuels and towards renewable and low-carbon energy, Democrats late last year let a two-decade-old moratorium on offshore drilling on large swaths of the Outer Continental Shelf expire late last year as constituents hounded elected officials about $4 a gallon gasoline.

Secretary Salazar said he was going to work with lawmakers on the Hill to re- write the five-year plan outlined by the outgoing Administration that would have allowed drilling in the previously banned acreage off the East and West coasts, as well as Alaska.

With polls still showing strong support for drilling, Salazar and Congress will need to tread a fine political line on offshore drilling policy, even with oil prices dropping from a $147 a barrel last July to around $40 recently and a larger majority in both chambers.

"We're now in a more reasoned atmosphere," than last summer, Rahall said in an interview with the Wall Street Journal. Rahall and other lawmakers say there's been little traction on Capitol Hill for a full reinstatement of the ban, despite strong calls from many environmental groups to prohibit drilling through legislation. "I don't think it would pass through Congress," the chairman said.

People close to the matter say the House is preparing a comprehensive new energy bill for a March or April vote that's likely to include drilling provisions.

Currently, drilling three to nine miles off the Atlantic and Pacific coasts could legally go ahead because of the moratorium expiration, but only if the Interior Department were allow it in its new development plan. Congress, however, could reinstate parts of the ban or change the requirements for drilling and royalty provisions.

In September of last year, the House passed an energy bill sponsored by Rahall that would have created a 50-mile drilling buffer off the coast, preventing access to acreage that the oil and natural gas industry says contains some of the best prospects. The Senate failed to take up the bill in the wake of the financial crisis, but with a larger majority, the prospects are better for the Democrats' agenda.

Salazar and Rahall are also promising reform of the royalty structures for the oil and gas industry, which is likely to not only increase the cost of leasing and production on the Outer Continental Shelf, but also may prevent new development.

Besides considering axing royalty relief and hiking rates, lawmakers and the Secretary may leave out measures included in recent lease sale laws that would give the states a share of the revenue.

"Unless you have a royalty-sharing provision, you're not going to get any new activity because there's nothing to encourage states to allow new development," says Brian Kennedy, a spokesman for the Institute for Energy Research, an organization that advocates for increase conventional production.

Senator Jeff Bingaman, D-N.M., the chairman of the Senate Energy and Natural Resources Committee, has said he strongly opposes royalty-sharing provisions.

Even if Congress did open new acreage, without such an incentive "it would be an empty promise," says Kennedy.

Dan Naatz, vice president of Federal Resources at the Independent Petroleum Association of America, said, "We'd like to see that go forward with the five year plan instead of trying to do something that would circumvent that process, such as Interior changing it or through a legislative fix."

The House Natural Resources Committee will kick off the three-hearing series next Wednesday exploring environmental and commercial perspectives and follow with two more at the end of the month with state and industry stake holder input.

Brady, 70 congressmen want outer shelf to remain open for oil and gas exploration
The Courier, February 4, 2009; http://www.hcnonline.com/articles/2009/02/04/conroe_courier/news/brady0205.txt

WASHINGTON, D.C. – U.S. Rep. Kevin Brady, R-The Woodlands, and 70 members of Congress have written to President Obama requesting that newly reopened areas in the Outer Continental Shelf remain open for oil and gas exploration.

“It’s important that President Obama steer a central, balanced path toward our energy future,” Brady said. “Tapping these energy resources would create more than 160,000 jobs over the next two decades.”

The letter was being delivered Tuesday to the White House and Department of the Interior, as the White House considers policy changes that would reverse the five-year leasing plan of deep ocean waters in the Outer Continental Shelf.

“Energy independence is a critical and achievable goal,” said Brady, who personally visited the Independence Hub production platform in the Gulf of Mexico last fall for a firsthand look at how natural gas is produced. “With energy production in deeper waters than ever before, we should be putting our technology to work weaning our nation off foreign oil.”

It is estimated that $1.7 trillion of government revenue would be raised from tapping the billions of barrels of oil and trillions of cubic feet of natural gas under the deep oceans off our coast. During the height of the energy debate last fall, polls showed the vast majority of Americans preferred to find new sources of energy here in America rather that continue being at the mercy of foreign nations. The Obama administration is reviewing reinstating the offshore drilling ban.

Key hurdles cleared, Cape Wind ready to rev up
Cape Cod Times, February 4, 2009;
http://www.capecodonline.com/apps/pbcs.dll/article?AID=/20090204/NEWS/902040317

By Patrick Cassidy

Cape Wind could begin to set up financing for its plan to build 130 wind turbines in Nantucket Sound as early as this spring, according to a company official.

The U.S. Minerals Management Service issued a largely positive environmental report for the project last month and a formal approval of a lease for the project could come as soon as two weeks. Combined with several permits already issued by the state and a pending decision on all other local and state permits, the federal lease could clear the way for Cape Wind to pursue investors and loans for the project.

In an e-mail to the Times yesterday, a spokesman with MMS — a division of the Interior Department — wrote that an ongoing review of the project's impact on historical and tribal properties would need to be complete before a final decision was made on a lease for the wind farm.

Matt Lee-Ashley, a spokesman for Interior Department Secretary Ken Salazar, said last week that Interior officials were "looking carefully at the issue" but that there was no plan to delay a decision, so far.

"Our approach has always been permitting first," Cape Wind spokesman Mark Rodgers said yesterday.

Once a lease has been secured, a project's value in the financial community increases, Rodgers said. "It's difficult to get major players in the financial community to sit down with you if you don't have that in place."

In 2005 Cape Wind lined up the ill-fated banking giant Lehman Brothers to help secure the more than $1 billion in debt and equity for the wind farm. After Lehman Brothers declared bankruptcy last year the division working with Cape Wind was sold to Barclays Capital.

At the time, Theodore Roosevelt IV, a former managing partner at Lehman Brothers who is now the managing director of Barclays' investment banking division, said that the firm, which is based in the United Kingdom and has had its own recent financial ups and downs, planned to continue working with Cape Wind.

Advocates for Cape Wind hope the financial future of the wind farm could become more secure with the passage of the now nearly $900 billion federal stimulus package that includes a three-year extension of production tax credits for renewable energy projects, as well as a tax break for investment in projects like Cape Wind.

A House bill that was passed last week also includes a grant program that could cover some of the capital costs of renewable energy projects.

As of yesterday a Senate version of the bill did not include the program, which renewable energy analysts say would be a significant boost for renewable energy projects.

Jeffrey Chester, chairman of the Wind Power Finance and Investment Summit scheduled for next week in San Diego and head of wind practice for Kaye Scholer, LLP, said in a recent interview that despite an administration clearly favorable to renewable energy, offshore projects are still a few years away from being built. .

Costs are double that of land-based turbines, for example, and the required equipment does not have a very long track record, Chester said.

And, the tight credit market makes financing offshore wind projects a challenge, he said.

"One of the biggest problems that we face with the market as a whole is until there's a clear bottom there's a lot of money sitting on the sideline waiting to get in," he said. Utilities, which are not known for their boldness, are likely to hang back from investing in untested technologies, he said.

Cape Wind would need a power purchase agreement — a long-term agreement with a utility or other organization — to sell its electricity if it is going to be built, Chester said.

Despite the odds stacked against Cape Wind and its president, Jim Gordon, Chester declined to say it couldn't be done.

"The developer has been extremely persistent and he's overcome tremendous obstacles so far," he said. "I will never count out Jim Gordon."

Cape Wind continues to face serious legal and political challenges, however. More lawsuits are expected after MMS releases its decision on the lease. The company has spent more than $40 million so far on legal, planning and regulatory activities.

Glenn Wattley, president of the anti-Cape Wind group, the Alliance to Protect Nantucket Sound, also said yesterday that financing will be tough for the Cape Wind project.

"The power-purchase agreement is the key thing," Wattley said.

He also questioned whether MMS would decide very quickly on a lease since the agency is still without a director.

Additionally permits from the state and other approvals from federal agencies are still outstanding, he said. "The idea that we're going to start construction anytime soon to me is a serious stretch."

Rahall plans oversight hearings on federal policy
Greenwire, February 4, 2009; http://www.eenews.net/Greenwire/2009/02/04/4/

Ben Geman and Eric Bontrager

House Natural Resources Chairman Nick Rahall (D-W.Va.) today said oversight hearings on offshore oil and gas drilling policy will begin next week.

Rahall announced three hearings in Washington, D.C., on Feb. 11, 24 and 25. The first will address "Environmental and Commercial Perspectives," the next will cover state views and the third will explore industry perspectives.

The oversight effort comes at an unsettled time for federal policy on outer continental shelf oil and gas leasing.

Congressional bans that had covered most coastal areas -- outside the western and central Gulf of Mexico and some Alaskan regions where leasing already occurs -- lapsed last fall. Then-President George W. Bush removed executive-level leasing bans over the summer.

Congressional Democrats have signaled that they do not plan to seek a blanket reimposition of leasing bans, but it remains unclear what areas may be opened to leasing. New Interior Secretary Ken Salazar has said the Obama administration is open to some expansion of offshore leasing but has not provided further details.

Rahall told E&E Publishing last month that while he is launching hearings quickly, a legislative effort to create new leasing parameters would come much more slowly (E&E Daily, Jan. 12).

At an organizational hearing for the committee today, new ranking member Doc Hastings (R-Wash.) said the committee's primary responsibility should be examining how to use offshore energy resources to create jobs.

"We simply haven't taken advantage of these resources," Hastings said, noting that the vast majority of offshore regions have been off limits. Rahall said he agreed that resource exploration was important but added that the committee should ensure it is done in a "responsible, environmentally sound and transparent manner."

A renewed attempt by Markey to save Georges Bank from drilling
Boston Globe, February 3, 2009;
http://www.boston.com/lifestyle/green/greenblog/2009/02/a_renewed_attempt_by_markey_to_1.html

By Beth Daley

Last year, US Rep. Edward J. Markey placed a clause in the energy bill that the House passed to protect the historic Georges Bank fishing grounds from gas and oil exploration. The Senate never took up the Georges Bank issue.

But the debate about drilling off New England is far from over. As President Obama weighs where offshore drilling should be allowed and recent polls show public support for it - Markey today reintroduced his protection legislation, saying any drilling on Georges could be disastrous to the New England fishing industry.

An exploratory well in the early 1980s off Cape Cod (Globe file photo)

Called The Georges Bank Preservation Act, it would protect the submerged land mass as well as any areas designated as marine national monuments or national marine sanctuaries from exploration and drilling. Markey says Georges Bank is vital to New England's economy and New Bedford, Mass. is by far the most productive fishing port in the United States, raking in $268 million in catch value. The collective catch of New Bedford, Gloucester, and Provincetown-Chatham—all of which rely on Georges Bank—is worth nearly $350 million annually.

For those of you who may not have been around in the early 1980s, eight exploratory wells were drilled about 125 miles east of Cape Cod. The effort sparked one of the most passionate environmental fights in New England - culminating in an dramatic 11th hour judge's decision to protect Georges Bank fish from drilling. The case was scheduled to be heard before the U.S. Supreme Court when the U.S. Justice Department suddenly withdrew its appeal. It was considered one of the region's greatest environmental wins at the time.

Times are different now. Last week, U.S. Interior Secretary Ken Salazar said the Obama administration was open to oil drilling in new offshore areas, but did give great detail on which areas.

And while New England's fishing industry is vibrant, it remains a shell of its former self with far fewer fishermen and coastal related businesses as fishing restrictions tighten to conserve disappearing fish.

Meanwhile, an October Suffolk University/Boston Globe poll showed that Massachusetts residents overwhelmingly support expanded oil drilling in the United States, including off the state's coastline. Fifty-eight percent of residents supported drilling in restricted areas off the coast of Massachusetts, while just 31 percent opposed the idea.

Still, Markey says Georges Bank in particular is too precious to touch.

"As President Obama and Congress pass crucial recovery legislation to create new American jobs, protecting Georges Bank will preserve hundreds of jobs here in Massachusetts. This fragile ecosystem must be protected for its environmental – and fiscal – value," Markey said. "The legislation that I am introducing today with my New England colleagues will ensure that Georges Bank is never allowed to become Exxon's bank."

Oil Industry Wary Of New US Interior Secretary's Policies
WSJ, February 2, 2009; http://online.wsj.com/article/BT-CO-20090202-711557.html?mod=dist_smartbrief

By Ian Talley

WASHINGTON (Dow Jones)--Despite Interior Secretary Ken Salazar's vow to draft a comprehensive energy policy that includes new domestic oil and gas drilling, the industry is watching with a wary eye.

Salazar hasn't been specific about where he will open new acreage for lease sales. But based on his comments so far, some industry officials fear that new drilling rights under such a plan may be in areas that show little promise compared to other prospects likely to remain off limits.

The officials also say the secretary's pledge to reform the government's royalty program, which collects billions of revenue from the industry for federal coffers, may discourage even more new projects.

Since his confirmation late last month,the former Democratic senator from Colorado has repeatedly said he is considering revamping the five-year lease sale plan established under the George W. Bush administration.

President Barack Obama has said he wants to fundamentally shift the country's energy economy away from fossil fuels and toward renewable energy, warning of dire global warming consequences if the world doesn't cut its greenhouse-gas emissions. Since outlining his opposition to fossil fuels early in his campaign, the oil and gas industry has been in the cross hairs of his strategy to ax emissions. Under pressure from constituents feeling the pain from $4-a-gallon gas, however, Democrats late last year acquiesced their opposition to new drilling access and allowed a two-decade-old moratorium on development of large swaths of acreage in the Outer Continental Shelf to expire.

The new president, who along with the Democratic-controlled Congress was elected with strong environmentalist support, is trying to walk a fine energy-policy line on drilling.

Limited New Access?

"We will take a look at where it's appropriate to drill and where it's not," Salazar told reporters earlier last week. He said "particularly sensitive" areas would likely be closed, and that special attention would be given to local and state input and to "areas of greater controversy and pressure to keep the areas closed."

But he indicated to Congress that his department may develop a compromise package, saying during his confirmation hearing that his office will "move forward with a comprehensive energy plan that might include drilling in some areas on the OCS."

Some of the toughest opposition is likely to come from the California delegation, which still vividly recalls the late-1960s oil spills on their coast that helped to spark the environmental movement. Speaker of the House Nancy Pelosi, D-Calif., Chairman of the House Energy and Commerce Committee Henry Waxman, D-Calif., and Sen. Barbara Boxer, D-Calif., head of the Senate Environment and Public Works Committee, are all vociferous opponents of drilling off the West Coast.

Salazar is known as a deal broker, and some energy analysts wonder if he will develop a plan that mimics the compromise proposed last year when oil prices were at their peak. That proposal kept the West Coast and much potential Alaskan acreage off limits, but opened up areas off Florida's coast and allowed states, including Virginia, North Carolina, South Carolina and Georgia, to "opt in" to drilling off their shores. It also proposed a large buffer zone between the coast and drilling. Much of the Alaska prospects, where the country's last largest fields are thought to lay untapped, would remain banned from development.

"I would hope that in these times of volatile energy prices and economic woes, that the administration would not want to remove any options from the table that could benefit American industry and enhance national security," Sen. Lisa Murkowski, R-Alaska, ranking member of the Senate Energy and Natural Resources Council, said in an email to Dow Jones.

"I believe it's an issue for each individual state to determine, and that's why I support expanding the revenue-sharing program to provide those states that want development some benefit," Murkowski said.

Like many Democrats in leadership positions, the chairman of the Senate Energy Committee, Sen. Jeff Bingaman, D-N.M., is opposed to state revenue sharing, and is likely to fight hard against inclusion of such a provision, a measure that many say would be necessary bait to bring lawmakers onboard.

Industry officials say any new proposal, other than the current five-year plan, would be a step back, and buffer zones too far from the shore would cut the potential for recovering resources.

"We're supportive of opening those areas off the four southeastern states, but that may not be enough," said Erik Milito, an upstream lawyer at the American Petroleum Institute.

"Clearly with respect to the geology, the greatest majority of the prospects are going to be found closer to the shore," Milito said.

Does Royalty Reform Equal Project Cuts?

Milito is also concerned about the potential for the Interior Department to raise the required payments to the government for oil production, called royalties.

Besides trying to sweep clean the Minerals Management Service - the department responsible for collecting royalties and managing leases that has been mired in public scandal for years - Salazar said he is considering axing the royalty-in-kind, or RIK, policy and other programs. The RIK allows companies to pay their royalties to the government in oil rather than cash.

"Maybe as we deal with the royalty-reform issue, we might be able to create the kind of revenue stream that will allow funding of landmark conservation funds" and other programs, Salazar said.

That doesn't necessarily sit well with industry, however.

"Money out of our pockets is taking money from future resources," said a senior official at one of the larger oil majors who declined to be named.

Perhaps an indication of the type of reform to expect from the administration, Obama not only campaigned for a windfall-profits tax for the industry, but also late last year as a senator from Illinois filed a bill called the "Oil Subsidy Elimination for New Strategies on Energy Act," or Oil Sense Act. The legislation would repeal a raft of incentives for the oil, natural gas and refining industries, including incentives for production from marginal wells, natural gas production in the Gulf of Mexico, ultra-deep water and unconventional natural gas projects, and undo accelerated depreciation of pipelines and royalty-relief thresholds.

Obama's bill, which wasn't taken up for a vote, would also have required the interior secretary to renegotiate controversial lease sales made in the late 1990s that omitted payment provisions that auditors say could cost taxpayers up to $60 billion in lost revenue.

Michael Kearns, director of external affairs of the National Ocean Industries Association, says any change in the royalty structure could impact projects. "In the case of royalty relief, we're talking about measures that are meant to encourage investment dollars here in the U.S. as opposed to having to go to cheaper markets," Kearns said.

Former federal minerals official gets probation
San Francisco Chronicle, February 2, 2009; http://www.sfgate.com/cgi-bin/article.cgi?f=/n/a/2009/02/02/state/n155439S39.DTL

By KEN RITTER

A retired Interior Department official named in a scathing report about lavish gifts and rigged contracts at the federal Minerals Management Service was sentenced Monday to probation and a $2,000 fine for violating federal conflict of interest rules.

"I apologize to you, sir," U.S. District Court Judge Robert C. Jones as he imposed a minimum sentence on Milton Dial, a former deputy associate director in the Lakewood, Colo., office that handled billions of dollars of oil and natural gas contracts.

The judge said he felt Dial, who retired from the agency in 2004 after 33 years and opened a consulting business in Las Vegas six months later, had been "selected out for prosecution" on a conflict charge that "high executives in our government violate all the time."

"Nobody accuses you here of defrauding the government or taking funds," Jones said, crediting Dial with cooperating with authorities and taking responsibility for his crime. "It's a felony, but it is a pretty reduced one."

Dial, 60, of Las Vegas, pleaded guilty Sept. 15 to one charge of violating federal conflict of interest law. He could have faced five years and a $250,000 fine. His lawyers, Peter Christiansen and Richard Tanasi, sought probation.

In a brief statement, Dial apologized Monday for his "poor judgment and actions."

"I have to say I'm ashamed and embarrassed to be here today," Dial told the judge, adding he was sorry for the "pain and disappointment" he caused his family, friends and colleagues.

An emotional Dial huddled after the his court appearance in the court hallway with lawyers, his 91-year-old mother, Lee Dial, his ailing wife, Sheila Dial, and his 28-year-old son, Zach Dial.

In court documents, Dial's lawyers said he closed his consulting business when contacted by authorities in July 2007, and cooperated with investigators.

He signed a plea deal with prosecutors in May 2008, just days after he was charged, and entered his plea less than a week after the Interior Department inspector general named him in a Sept. 9 report of a "culture of ethical failure" at the Minerals Management Service.

The report called Dial and two other officials "good friends ... who remained calculatedly ignorant of the rules" to ensure that two lucrative contracts went to a company one of the officials created and that Dial joined after retiring.

One of those former friends, Jimmy Mayberry, pleaded guilty last July to violating conflict of interest laws.

Another former agency official, Donald Howard, is scheduled for sentencing Tuesday in New Orleans after pleading guilty in November to failing to report that an oil industry contractor paid for a hunting trip he took.

The sentencings come with new Interior Secretary Ken Salazar promising to dig deeper into possible criminal conduct at the Minerals Management Service.

Frank Quimby, an Interior Department spokesman, said Monday that Salazar wanted the Justice Department to take a second look at cases where officials decided not to pursue criminal charges.

A two-year probe found employees at the agency's royalty collection office accepted gifts from energy companies, used cocaine and marijuana and had sexual relationships with company representatives doing government business.

Will search for oil off coast hurt sea life?
Charlotte Observer, February 2, 2009; http://www.charlotteobserver.com/local/story/510905.html

With exploration a possibility, surveyors may use seismic blasting.
By Bruce Henderson

As the Obama administration weighs drilling for oil and natural gas in the Atlantic and other previously banned areas, six applications for geologic exploration off the Carolinas wait before a federal agency.

Off both states, exploration companies would use a technology that is of growing environmental concern. Seismic surveys, as they are called, fire powerful blasts from air guns to probe the ocean floor.

The surveys can generate up to 260 decibels of noise, well beyond the threshold of pain for humans, and there's evidence they also affect whales and other marine mammals, turtles and fish.

The federal Minerals Management Service, which has 16 applications on file for Atlantic exploration, plans to study the environmental impacts of seismic surveys and other types of undersea geologic work. Three of the applications are for offshore North Carolina and three for South Carolina. One in each state would use seismic surveys.

N.C. legislative leaders, anticipating renewed interest in drilling, this month named a 24-member study committee to assess its environmental and economic impacts on the coast. The committee includes Piedmont Natural Gas executive Jane Lewis-Raymond.

Congressional and presidential bans on exploration in the Atlantic expired last year. In the last week of the Bush administration, the federal Minerals Management Service proposed selling as many as three oil and gas leases in the mid-Atlantic region including North Carolina between 2010 and 2015.

Only one of those sales has a specified location: 50 miles off Virginia, just north of the N.C. line.

The Obama administration could withdraw or alter the proposed sales but hasn't yet acted. The administration is likely to weigh political and public support, which is shifting in favor of drilling, as well as environmental sensitivity and other factors.

As it proposed selling leases, MMS also said it plans to study the environmental impacts of geologic and geophysical studies of the Atlantic bottom.

The agency says seismic surveys, one of the technologies used in such exploration, has the potential for “significant” harm. It acknowledges growing concern among regulators and scientists about the effects on sea life.

North Carolina is gathering information but hasn't yet filed comments on the environmental study, said Mike Lopazanski of the N.C. Division of Coastal Management.

As with any federal action, such as selling offshore oil and gas leases, the state is allowed to do “consistency” reviews of such proposals. The reviews ensure that exploration is in harmony with state coastal-management rules, and were used to fight exploration off Cape Hatteras in 1990.

That area, known as the Manteo Exploration Unit, potentially holds 5 trillion cubic feet of natural gas that could be pumped for 20 to 30 years.

Because drilling has been banned off the N.C. coast since 2000, Lopazanski said, “a lot of this is going to be new for a lot of people.”

Exploration companies doing seismic surveys trail arrays of powerful air guns to search the bottom. The guns shoot powerful acoustic blasts that detect potential deposits under the ocean floor as well as hazards to drill rigs.

The low-frequency blasts can settle like an underwater acoustic fog, disrupting marine mammals whose calls let them communicate over long distances, said Michael Jasny, a lawyer with the Natural Resources Defense Council. The group has also fought the Navy over its use of sonar, which has been linked to whales beaching themselves.

“There's a growing awareness on the part of the research community that seismic exploration can affect whales,” Jasny said. Research shows that fin whales stop calling during seismic exploration, he said, possibly affecting their mating and eating habits.

The underwater blasts have been shown to also reduce fish catches, Jasny said.

Companies working in the area would have to abide by federal laws protecting endangered species and marine mammals such as whales, MMS says. But the marine-mammal law allows “incidental” harm to the creatures it protects.