

Week in News: May 25-May 31, 2009

Hurricane Season Not Quite as Frightening

WSJ, May 31, 2009; <http://online.wsj.com/article/SB124381651973770759.html>

Wave-power project faces delays, costs

San Francisco Examiner, May 30, 2009; <http://www.sfexaminer.com/local/Wave-power-project-faces-delays-costs-46502902.html>

US House panel studies proposal to alter federal leasing

Oil and Gas Journal, May 29, 2009; http://www.ogj.com/display_article/363649/7/ONART/none/GenIn/1/US-House-panel-studies-proposal-to-alter-federal-leasing/

Proposals hammer domestic, offshore drilling

Washington Examiner, May 29, 2009; http://www.washingtonexaminer.com/politics/Proposals-hammer-domestic-offshore-drilling_05_29-46415252.html

OCS opponents say Gulf leasing OK

Upstream Online, May 29, 2009; <http://www.upstreamonline.com/live/article179527.ece>

Arctic May Boost Oil and Gas Reserves

ScienceNOW, May 29, 2009; <http://sciencenow.sciencemag.org/cgi/content/full/2009/528/2?rss=1>

Making MODUs safer in hurricanes

Offshore Magazine, May 29, 2009; <http://www.offshore-mag.com/index/article-display/361025/s-articles/s-offshore/s-volume-69/s-issue-5/s-drilling-completion/s-making-modus-safer-in-hurricanes.html>

McMoRan Exploration updates GoM activities

Offshore Magazine, May 28, 2009; <http://www.offshore-mag.com/index/article-display/363516/s-articles/s-offshore/s-drilling-completion/s-us-gulf-of-mexico/s-mcmoran-exploration-updates-gom-activities.html>

Enviro groups, native Alaskans ask court to hold firm on state leasing decision

E&E News, May 28, 2009; <http://www.eenews.net/eenewspm/2009/05/28/2>

Cape Wind secures permits to begin construction

Boston Business Journal, May 28, 2009; <http://boston.bizjournals.com/boston/stories/2009/05/25/daily52.html>

Groups sue for more stringent sea turtle protections

Greenwire, May 28, 2009; <http://www.eenews.net/Greenwire/2009/05/28/16>

House draft bill would raise oil royalties

Reuters, May 27, 2009; <http://www.reuters.com/article/politicsNews/idUSTRE54Q55520090527>

Draft Resources bill overhauls agency's leasing, royalties, ethics rules

Greenwire, May 27, 2009; <http://www.eenews.net/Greenwire/2009/05/27/1>

Minerals service solicits research on Outer Continental Shelf

Hydro World, May 26, 2009; http://www.hydroworld.com/index/display/article-display/1099047720/s-articles/s-hrhrw/s-tendersandnotices/s-tenders/s-minerals-service_solicits.html

House bill proposes new changes for drilling on public lands

The Hill, May 26, 2009; <http://thehill.com/business--lobby/house-bill-proposes-new-changes-for-drilling-on-public-lands-2009-05-26.html>

Florida legislators seek to lift offshore drilling ban

Energy Current, May 25, 2009; <http://www.energycurrent.com/index.php?id=2&storyid=18269>

Hurricane Season Not Quite as Frightening

WSJ, May 31, 2009; <http://online.wsj.com/article/SB124381651973770759.html>

Energy-Price Surge Less Likely as Recession Saps Demand; 'Rules of the Game Are Changing'

By JASON WOMACK

HOUSTON -- Hurricane season isn't as threatening as it used to be, at least for energy markets mired in a recession.

The 2009 Atlantic hurricane season, which officially starts June 1 and lasts through Nov. 30, comes amid a global slump in oil and natural-gas demand. Although gasoline prices could rise if storms hit major refining centers, analysts said the threat to natural-gas prices has softened, and crude-oil prices are unlikely to move much on storm-related outages.

"Because the oil market is a global market, the effects on price will be less than they will be for natural gas," said Gene McGillian, an analyst with Tradition Energy in Stamford, Conn.

[View Full Image](#)

Chevron Corp.

Chevron's newest deepwater Gulf of Mexico production facility, located 190 miles from New Orleans, Louisiana, U.S.

The U.S. has come to rely less on the Gulf of Mexico's natural-gas production, and crude output from the region is just a small piece of a relatively depressed global market, representing less than 2% of world-wide demand. But the region accounts for about a quarter of U.S. domestic oil output.

The trend already was evident last year, when energy markets reacted less severely to the 2008 hurricanes than they had in previous years, said Jim Rouiller, senior energy meteorologist for private forecasting firm Planalytics.

"I'm beginning to think the rules of the game are changing," Mr. Rouiller said. "Weather will always play a role. It is just to what degree."

The potentially muted impact of storms on energy markets is a marked change from 2005, when hurricanes Katrina and Rita caused turmoil, jolting natural-gas prices at a time of tighter supplies. Natural-gas prices shot to an all-time high above \$15 a million British thermal units in the next several months, partly because those storms knocked out some gas-production infrastructure.

The effect on oil, however, was short-lived. The average futures price for oil jumped less than a dollar from August to September.

Natural gas for July delivery on the New York Mercantile Exchange on Friday fell 12.2 cents, or 3.1%, to \$3.835 a million BTUs, and hurricane-related price increases are unlikely due to robust domestic production and swelling inventories.

Also, the region is forecast to face a more moderate storm season than last year. The National Oceanic and Atmospheric Administration predicts nine to 14 named storms, including four to seven hurricanes. In 2008, there were 16 named storms, eight of which were hurricanes.

Natural-gas and oil output from the U.S. Gulf virtually stopped after hurricanes Ike and Gustav passed through last year, and some production still is shuttered. The Minerals Management Service reported this month that 5% of oil production and 8% of gas output in the region is offline. The bulk of that production is held back by pipeline outages.

High natural-gas-storage levels helped ease supply concerns through hurricanes Ike and Gustav in 2008, said Tancred Lidderdale, an analyst with the Energy Information Administration.

After those storms, the average price of natural gas fell from \$8.26 in August to \$7.65 in September as the recession began cutting into demand.

"We expect inventories to be even higher this year, which should cushion the impact of hurricanes," Mr. Lidderdale said.

Stocks of natural gas stand at 2.213 trillion cubic feet, nearly a third higher than last year and 22% above the five-year average. U.S. oil stocks also are near an 18-year high.

Since the 2005 storms, natural-gas production has shifted onshore, where producers began tapping resources known as shales, said Tim Evans, an energy analyst with Citi Futures Perspective in New York.

"We have less of our supply at risk in the direct path of a storm," Mr. Evans said.

Gas output from the Gulf is about 6.5 billion cubic feet a day. The Barnett Shale, an onshore gas field in north Texas, produces about four billion cubic feet of gas a day and is largely credited with fueling the recent boom in domestic onshore gas production.

U.S. Gulf gas output represents about 11% of domestic production, compared with about a fifth of total U.S. production in 2005, according to the EIA.

Wave-power project faces delays, costs

San Francisco Examiner, May 30, 2009; <http://www.sfexaminer.com/local/Wave-power-project-faces-delays-costs-46502902.html>

By: John Upton

SAN FRANCISCO — An effort by San Francisco to harvest renewable energy from the power of the waves that roll into Ocean Beach has been dealt a blow by the federal government.

The development of ocean power, a budding source of clean energy that could prove lucrative for the water-flanked city, has been a cornerstone of The City's efforts to adopt a green-energy leadership role.

The City is planning two ocean power trials: One would anchor a field of submerged kelp-resembling devices 3½ miles off Ocean Beach to capture Arctic storm-driven wave power; the other would place a turbine beneath the Golden Gate Bridge to harness moon-pulled tidal power.

An application to run up to three years of environmental and feasibility-related wave power studies in a 25-acre patch of sea off Ocean Beach was filed by San Francisco last year with the Federal Energy Regulatory Commission, a U.S. Department of Energy agency.

After those studies, The City aims to install a trial wave-power plant at the site to create up to 3 megawatts of electricity, before ramping up the project to 100 megawatts, which is half of the electricity produced by the fossil fuel-burning power plant in Potrero Hill.

But the application was recently rejected, because responsibility for permitting renewable energy projects on the Outer Continental Shelf, which begins three miles offshore, will now be shared with the Minerals Management Service, a U.S. Department of Interior agency that regulates mining companies and collects lease payments from them.

The agency plans to require lease payments for the development of renewable-energy projects on the shelf.

Other organizations will be invited to competitively bid against San Francisco for the right to develop the patch of seabed off Ocean Beach as part of a process that could take several years, according to agency Renewable Energy Coordinator Maurice Hill.

If no other organizations bid, San Francisco will still be required to make annual lease payments, according to Hill.

Based on preliminary data published by the agency, The City's annual lease could reach \$50,000, Renewable Energy Program Manager Johanna Partin told San Francisco's Environment Commission this week. "Which is \$50,000 a year more than we were anticipating," she said.

The tidal-power project is unaffected by the changes. The City and its partners, including Pacific Gas & Electric Co., are waiting for approval of a permit application needed to move forward on that project.

US House panel studies proposal to alter federal leasing

Oil and Gas Journal, May 29, 2009; http://www.ogj.com/display_article/363649/7/ONART/none/GenIn/1/US-House-panel-studies-proposal-to-alter-federal-leasing/

Nick Snow

WASHINGTON, DC, May 29 -- A legislative draft that would substantially change federal oil and gas leasing has been circulating around the US House Natural Gas Resources Committee.

The proposal by the committee's majority would consolidate the US Bureau of Land Management and US Minerals Management Service, according to a copy that OGJ obtained on May 29. It would shorten lease periods from 10 to 5 years, increase onshore royalty rates to 18.75%, require diligent development of leases, and impose best management practices on new leases.

Offshore, the proposed legislation would institute a "no discharge" requirement for new leases. It also would establish what the draft calls "a production incentive fee" on existing onshore and offshore leases that are not producing in their later years to encourage production and discourage speculative holding of federal resources.

The bill's draft also would change the federal royalty program in several ways including elimination of royalties-in-kind, ending federal reimbursement of interest accrued on overpayments lessees erroneously make, revision of several ambiguous legal provisions which the bill's proponents say hinder accurate accounting, and increased penalties for inaccurate royalty reporting and payments.

The draft also would establish regional ocean councils and onshore statewide teams modeled on existing voluntary collaborative management efforts such as the Northeast Regional Ocean Council and the Western Governors Association's Renewable Energy Zones project.

OCS planning councils

OCS regional planning councils would be established for the Atlantic, Pacific, and Gulf of Mexico regions. These councils would prepare marine spatial strategic plans to guide OCS energy development amid other activities. The plans would then incorporate into the 5-year OCS leasing plans that are already being developed under the OCS Lands Act.

Onshore, the draft proposes creating federal-state-stakeholder teams to develop comprehensive energy plans for each public lands state. The plans would be used to guide federal land management and leasing decisions. The bill also would create federal leasing programs for wind, solar, and uranium on public acreage to create a basic framework for the various kinds of energy development.

The draft proposal also would create an oceans trust fund, which would dedicate a portion of OCS revenues to grants for coastal states and regional collaborations to protect, maintain, and restore ocean, coastal, and Great Lakes ecosystems.

Oil and gas industry association leaders immediately criticized the proposals. American Petroleum Institute Pres. Jack N. Gerard said on May 29 that the draft poses a major threat to US energy security, and to the jobs, revenues, and secure energy supplies that would result from more domestic oil and gas development. "We need more energy. Provisions of this draft bill will not provide us with more energy. Instead, the draft bill will impose hurdles, drive up costs, and stifle investments, which will lead to less energy," he maintained.

The Natural Gas Supply Association will send a letter next week to House Natural Resources Committee Chairman Nick J. Rahall (D-W.Va.) and the majority staff, "letting them know that this legislation eliminates jobs, reduces domestic supply, and puts upward pressure on natural gas prices at a time when people are worried about jobs and prices," said NGSA Pres. R. Skip Horvath on May 29.

Payments in billions

Horvath noted that gas producers remitted \$2.9 billion to the federal government in royalties, rents, and other payments in 2007, and more than doubled such payments to \$7.2 billion in 2008. "Those numbers don't even

include the taxes we pay," Horvath said, citing US Energy Information Administration figures showing that major gas producers had an effective income tax rate of 40.3% in 2007, significantly higher than the 35% US statutory rate and the 26.6% effective rate for all US manufacturers.

"At a time when unemployment is running in the double digits in states like California and Michigan, now is not the time to raise taxes or create uncertainty in the energy market. That hurts consumers on both the job front and in the pocketbook. By our calculations, natural gas provides approximately 4 million American jobs. This legislative proposal will put those jobs at risk," Horvath said.

Other trade association officials tried to quantify impacts and resolve uncertainties in the legislative draft. "The bill, as a package, seems to express an anti-oil, anti-natural gas bias. We've completed a review and are waiting to discuss it with member companies," Richard L. Ranger, a senior policy advisor at API, told OGJ on May 29.

"It's clear that they're trying to boost renewable energy development on public lands. At the same time, they're making it more difficult to produce natural gas, which we need to enable those renewable energy resources and tackle climate change. On the one hand, the government is trying to increase renewable energy production. On the other hand, it's making it more difficult to develop the natural gas that will be needed to back up intermittent renewable sources," observed Kathleen Sgamma, government affairs director at the Independent Petroleum Association of Mountain States.

Daniel T. Naatz, vice-president of federal resources and political affairs at the Independent Petroleum Association of America, said, "We need to look more closely at these proposals, which are only a draft. Our main concern is that it will create further delays. We've seen from the environmentalists' playbooks that the more opportunities there are, the more they'll make it difficult to actually do work. The idea of planning councils sounds reasonable on its face, and we may not be opposed to it. But our experience suggests that it simply could create a more efficient way to slow things down."

Proposing to cut onshore lease periods in half suggests that no effort was made to consider the time necessary to move from leasing to development to production in frontier US areas which are being leased now, API's Ranger said.

'Often takes longer'

Ranger said, "If you roll up the deep gas plays in the Intermountain West and the work in the Gulf of Mexico in deep water, you're looking 4-9 years before production begins. Each of these prospects and plays brings its own challenges. As we move to frontier areas and drill deeper to pursue projects in more challenging regimes, it often takes longer. The idea of a 5-year lease term would have worked a generation ago when you were chasing basic sandstone gas plays on 160-acre tracts in western Oklahoma, but it won't work now."

Land ownership patterns also pose challenges for producers, IPAA's Naatz told OGJ. "It is important to recognize that in the Intermountain West, a producer often has to work with federal, state and private landowners to put acreage together to secure credit. In and of itself, this won't put people out of business. But it will make it more difficult for independent producers," he said.

IPAMS's Sgamma said the association is more concerned about the proposal to increase fees and royalty rates, which she said would result in less gas produced from federal lands. "When costs go up, a producer has less money to spend on actually developing the resources," she said.

Ranger said he was most troubled by the draft's proposed requirement that a lessee supply the government information every couple of years that he has been pursuing development diligently troubled him most. "The bill is silent by what benchmarks this will be determined. It also doesn't consider how government employees will look at reams of paper and electronic filings they would receive in response to this requirement," he said.

Ranger added, "Finding oil and gas requires ongoing judgment calls, comparing leases and prospects. Somehow, there's to be some arbitrary standard to determine leases are diligently being developed. We have it already with the existing leasing system, where companies have to risk additional capital to determine if the lease has commercial properties. We've been finding real oil and gas. What this process is going to add in administrative burdens will make it that much harder."

'Every incentive already'

Production incentive fees also are unnecessary, Naatz said. "Operators are part of a competitive bid process when they bid for leases. They pay bonuses and rental rates. No company I know simply doesn't lease land and sit on it. They're conducting seismic work, putting land packages together, and otherwise trying to move ahead. Companies have every incentive to produce already. This will simply add more costs and, certainly, for marginal areas when prices are low make it that much harder to produce," he said.

Sgamma said, "Why wouldn't they figure out what due diligence is before they propose punitive measures? Shouldn't they be looking harder at data inconsistencies and problems the Interior Department has? They propose additional fees, but show no appreciation for the exploratory work, environmental analysis and permitting companies do on their leases."

The three oil and gas association officials also questioned the rationale behind combining BLM and MMS. "I don't understand what a bureaucratic organization is going to do when institutions have been in place for half a century. It's hard to tell from the proposals what the impacts would be. At a time when there's so much change being proposed, I think a major reorganization would delay positive gains in improving energy security and developing renewable resources," Sgamma told OGJ.

"I don't understand what a bureaucratic organization is going to do when institutions have been in place for half a century," she said, adding, "It's hard to tell from the proposals what the impacts would be. At a time when there's so much change being proposed, I think a major reorganization would delay positive gains in improving energy security and developing renewable resources."

Ranger said, "The draft's proposal to create a new single office of federal energy mineral's leasing has great potential to be a totally wasted exercise. There are functions performed by BLM and MMS that are unique. The loss of efficiency and expertise that would be lost would be considerable."

Withdrawals, delays

The association officials also questioned whether creating new planning councils would be effective in producing more energy domestically. Ranger said, "The legislation is silent as to whether this new committee-driven planning effort will stop all other processes until it delivers its findings. It also, particularly offshore, seems to invite the planning councils to identify new areas to be withdrawn."

He said, "Overall, this approach seems destined to change and transform a decision-oriented approach with accountabilities and expectations with endless planning creating new opportunities for special interest groups to insert themselves into the process to stop energy development. It's possible that even if these planning groups produce a recommendation for leasing, one of these groups will sue to force consideration of one of their recommendations."

Ranger said, "It seems tailor-made to throw new roadblocks in the way of America's energy security in places out west and in deepwater frontiers. It will create new burdens on both government and industry at a time when we're concerned about jobs, about revenues, about investment and about sustainable energy supplies and energy securities. This bill works against every one of these objectives."

Sgamma said, "It's impossible to say from the bill how that would interact with the already existing land use planning processes. BLM has spent hundreds of man-years and millions of dollars developing these processes over several decades. It spent \$35 million in Utah over the last 6 years. That's just one state. The bill is unclear how this new structure would interact with this."

The officials emphasized that the proposals could change before the bill is introduced, but are troubling just the same. "Taken in total, they go exactly against efforts to increasing energy, and oil and gas in particularly, on federal lands," Naatz said, adding, "All of these provisions are going to make it more difficult for independent producers in particular to explore for oil and gas in the Intermountain West and across the country."

Proposals hammer domestic, offshore drilling

Washington Examiner, May 29, 2009; http://www.washingtonexaminer.com/politics/Proposals-hammer-domestic-offshore-drilling_05_29-46415252.html

By: Susan Ferrechio

Domestic oil and gas companies are bracing for proposals by the Obama administration and some in Congress that would limit oil and gas production both on land and offshore while increasing taxation and regulation of the industry.

The House Natural Resources Committee has released a draft bill that would raise by 50 percent royalty fees imposed on companies drilling on federal land and cut their 10-year leases in half.

The proposal calls for a “zero-discharge” requirement to be imposed on all new offshore leasing areas and would end royalty relief programs aimed at promoting deepwater exploration and production of natural gas and crude oil.

The American Petroleum Institute called the proposal “one of the most anti-oil-and-gas-development pieces of legislation to be considered by Congress so far this session,” but Democrats see it as a way to bring about safe and environmentally sound domestic oil and gas production while at the same time promoting renewable energy.

The draft legislation was released as the Obama administration mulled what to do about the offshore drilling plan put in place by President George W. Bush before he left office.

Bush acted after Congress lifted a decades-old moratorium on offshore drilling on the East and West coasts. Bush’s plan would have activated drilling leases as early as 2011 off the coast of Virginia, followed by Southern California in 2012 and the North Atlantic coast in 2014, but Interior Secretary Ken Salazar put the plan on hold for 180 days and he is not expected to honor those lease agreements.

Oil prices shrank with the economy but are now back on the rise. Gas prices averaged more than \$2.40 per gallon this week, having risen about 25 cents in the last month alone.

In February, Obama introduced a budget plan that would end oil and gas industry tax breaks and impose new taxes on offshore drilling in the Gulf of Mexico, the only place it is currently allowed.

“There are record prices and record profits at the same time, and that doesn’t compute for people,” a top Democratic leadership aide said.

Just four House Democrats come from districts with a stake in oil and gas production, which leaves the industry with very few allies in the majority.

Erik Milito, managing counsel for the American Petroleum Institute, said he feared the oil and gas industry bill would seriously handicap the industry in the U.S.

“When all these little provision in the bill add up, you are creating a disincentive for companies to invest here,” Milito said. “Companies have a decision to make: Do we want to stay in the United States or go overseas, which forces us to buy imports?”

OCS opponents say Gulf leasing OK

Upstream Online, May 29, 2009; <http://www.upstreamonline.com/live/article179527.ece>

By Noah Brenner

The plaintiffs in a case that struck down the current five-year offshore leasing plan for the US are asking that the ruling apply only to those portions of the plan addressing areas off Alaska’s northern coast.

In April, a US appeals court agreed with Center for Biological Diversity and native village of Point Hope that the leasing plan did not adequately assess the environmental impacts of leasing in the Beaufort, Chukchi and Bering seas, and vacated the entire plan, which includes areas in the US Gulf, offshore Virginia and offshore Alaska.

In a response filed with the court today, attorneys for the plaintiffs said they thought the decision should only apply to the waters off Alaska and point to existing case law showing that the court can tailor its decision to those specific areas.

“Here, Interior has long and consistently leased the outer continental shelf waters of the western and central Gulf of Mexico,” the filing states.

“There is thus little doubt it would have done so regardless of the inclusion in the leasing programme of the complained about programme areas in the Beaufort, Chukchi and Bering seas.”

If the court agrees with the plaintiffs, it would answer questions about the validity of 1854 leases in the US Gulf sold at three different auctions under the current plan.

It would also clear the way for a lease sale in the western US Gulf planned for August.

Officials with the US Minerals Management Service previously had expressed doubt that the sale could continue if the offshore leasing plan governing the area had to be revamped.

But the groups said the vacature should render the latest sale in the Chukchi Sea null and void.

That sale saw companies bid on 488 blocks, including 275 by Anglo-Dutch supermajor Shell, which spent \$2.1 billion in high bids.

The latest filing comes in response to a request by the American Petroleum Institute, which had filed a brief asking the DC appellate court to revisit its decision to vacate the entire plan. The group argued instead it should simply be remanded to Interior to improve the environmental analysis.

The US Department of the Interior had also sought to preserve the results of the previous lease sales and make revisions to the plan while continuing with scheduled lease sales.

Department of Justice attorneys said that invalidating all previous and planned sales would create a nightmare for the government, which has collected and spent money from the bids, and for operators, which have already begun to develop the leases.

Attorneys for Center for Biological Diversity and native village of Point Hope said the court was within its power to vacate the plan and must do it, so as not to prejudice the outcome of any future environmental assessments of the drilling programme.

“Here, once companies have bid on and paid Interior for leases, Interior will be much less likely to reverse course and cancel the Alaska lease sales than it would if it were starting on a level playing field,” the attorneys wrote, citing case law.

“Indeed, the court need look no farther than Interior’s petition to see the prejudicial weight of such bureaucratic commitment. Interior’s description of the disruption involved in canceling previously issued leases in the Gulf of Mexico gives a taste of the bureaucratic inertia that would accompany Interior’s [reassessment] if the Chukchi leases were allowed to remain in the interim.”

An official with API told UpstreamOnline his organisation had not had time to review the latest filing.

An Interior Department spokesman said he could not comment on ongoing litigation.

Arctic May Boost Oil and Gas Reserves

ScienceNOW, May 29, 2009; <http://scienow.sciencemag.org/cgi/content/full/2009/528/2?rss=1>

By Jackie Grom

The first-ever comprehensive assessment of Arctic oil and gas deposits reveals that 13% of the world's undiscovered oil and 30% of its undiscovered natural gas could be trapped beneath the far north's barren land and icy waters. The potential resources are unlikely to alter world trends in oil and gas trade, however, and will probably keep Russia the king of natural gas for years to come.

Because of the Arctic's remote location and harsh environment, oil and gas exploration has been limited to just a few areas off the coasts of northern countries, such as the United States and Russia. But dwindling oil reserves (expected to peak in production by about 2020), waning opportunities for exploration elsewhere, and the melting of sea ice have recently made the Arctic a more attractive option. But just how much does the Arctic have to offer?

About 5 years ago, geologist Donald Gautier of the U.S. Geological Survey (USGS) in Menlo Park, California, and his colleagues decided to find out. First, they created a geological map of the Arctic to identify sedimentary rocks, which have the potential to carry oil and gas. Then they subdivided the rocks into specific groups based on their geologic properties and compared them with groups elsewhere in the world known to contain oil and gas.

The researchers report online today in *Science* that the Arctic likely contains about 83 billion barrels of undiscovered oil. That represents about 4% of the world's remaining conventional oil and enough to sustain global demand for almost 3 years. At the same time, the Arctic probably contains about 1550 trillion cubic feet of natural gas--enough to meet world demand for about 14 years. Most of the resources lie offshore under less than 500 meters of water, which means they are accessible to drilling. But companies will probably drill in these areas only if there is adequate demand and if they have the technology to do it. The resources could take decades to exploit, says Gordon Kaufman, a mathematical statistician at the Massachusetts Institute of Technology in Cambridge, who was not involved with the study.

Although it's too early to tell what the potential reserves might do to the price of oil and gas, Gautier says the findings will not cause a major shift in the major players of the world's oil and gas trade. The quantity of oil is too small to have an impact, and Russia, which the report estimates has the greatest amount of undiscovered natural gas, is already the world's largest producer. But the effects could be felt locally, he says, as would be the case for Alaska, whose offshore sediments contained the most oil in the assessment.

"It's an impressive piece of work that fills a big hole where we've had little information," says William Fisher, a geologist at the University of Texas, Austin. Although the estimates will change over time as exploration continues, he says that the report offers the best baseline to date.

Wildlife biologist Steve Amstrup of the USGS Alaska Science Center in Anchorage points out that one of the high-potential areas identified in the assessment off the northwestern shore of Alaska is important for marine animals, such as polar bears, seals, and whales. How future oil and gas development plays out could be an "important consideration for the future welfare of some of those wildlife species," he says.

Making MODUs safer in hurricanes

Offshore Magazine, May 29, 2009; <http://www.offshore-mag.com/index/article-display/361025/s-articles/s-offshore/s-volume-69/s-issue-5/s-drilling-completion/s-making-modus-safer-in-hurricanes.html>

How a JIP helped strengthen the moorings on Gulf of Mexico rigs

The 12 semisubmersible mobile offshore drilling units that went adrift during Hurricanes Katrina and Rita in 2005 caused neither pollution damage nor loss of life, but did blow a hole in industry's comfort with existing MODU mooring criteria. It was not the first time a MODU had gone adrift in a storm, but it was the first widespread recognition that the consequences of mooring failure had changed.

A Joint Industry Project (JIP) on MODU Mooring Strength and Reliability, formed in response to the losses, has revolutionized industry understanding of Gulf weather, rig behavior, and development of mooring criteria. The results of that work, incorporated into new mooring criteria, will be presented at OTC 2009 in its first-ever conference session devoted entirely to the topic.

Before 2005, possibly the best-known mooring failure was that of the semisubmersible drilling rig Zane Barnes, which broke adrift during Hurricane Andrew in 1992 and floated 30 mi (48 km) to shore, toppling one fixed production platform, colliding with another, and dragging anchors over several pipelines. Still, MODU damage during Andrew affected just a tiny fraction of Gulf production, which at the time accounted for barely 10% of US output. As such, it was soon forgotten. The US Minerals Management Service (MMS) did commission studies of rig performance during Andrew, but in the 40 years since the invention of the semisubmersible, such incidents were still rare and of minor consequence, so most experts tended to see mooring failure as an anomaly in a historically sound practice.

This was still the view in 2002, when one rig broke loose during Hurricane Lili. By then, however, the offshore had become critical to US oil supply, representing about 30% of domestic production – thanks largely to a few immense deepwater discoveries. With 72% of Gulf production now concentrated in a handful of deepwater platforms, and every deepwater advance encroaching on areas of MODU activity, mooring reliability fell under new scrutiny. The

MMS, in commissioning a study of Lili's effects on offshore production, specified MODU mooring analysis as one of the projects.

When Hurricane Ivan blew four semis off station in 2004, MMS increased pressure on industry for answers. The Gulf of Mexico Offshore Operators Committee (OOC) answered with its Hurricane Response Committee, a forum for operators and drilling contractors to share information. Seeing the issues needed broad industry involvement, the OOC issued a request for proposal for a JIP on MODU mooring strength and reliability. The RFP went out in June 2005, but as responses came in, so did hurricanes Katrina and Rita. Together with Ivan, the three storms sent a total of 16 MODUs adrift for varying distances, with another nine breaking lines or experiencing anchor slippage. None caused pollution or death, but all shouted a warning that could not be ignored.

Most of the rigs had broken free at the fairlead, while some tore free of the seabed and dragged their anchors while drifting. One dragged anchors across the 18-in. (46-cm) oil and 14-in. (36-cm) gas pipelines from the Mars production platform. At 147,000 b/d of output, Mars represents over 10% of total Gulf oil production, and damage to its export lines normally would cause a noticeable drop in US oil output. In this instance, however, the lines were repaired before the topsides damage, which shut in production from August until May. The MODU caused no pollution, but nonetheless made the new consequences of mooring failure unmistakable.

Immediately after the hurricanes, the government pushed for industry action, with then-Secretary of the Interior Gale Norton setting a date in November to discuss MODU safety with operators and drilling contractors. That September, OOC awarded the MODU JIP to ABS Consulting, in partnership with Delmar Systems, Offshore Risk & Technology, Energo Engineering, and Metocean, Coastal and Offshore Technologies. Quick response to the JIP enabled its representatives to bring to their meeting with the Secretary proof of over \$1 million in funds and priceless expertise committed to its success.

Meanwhile, regulators and legislators began talking up a "no MODUs adrift program" and airing proposals to mandate Gulf semis keep station in a 100-year storm; some even proposed the criterion of a 1,000-year storm. The threat of such edicts raised critical safety and technology issues. One major concern was that most existing drilling rigs could not physically support the tremendous additional weight of chain and equipment such criteria would demand. The resulting fleet shutdown for upgrading would halt US offshore energy progress. There was also concern that 100-year criteria would endanger mooring installation crews, who would have to handle the much heavier chain and wire required while on the open deck of a rolling anchor handling boat. The JIP tackled the problem by reexamining the metocean data underlying current criteria.

New metocean understanding

"Before Ivan, Katrina, and Rita, I believe most people in the industry would have said that we know the waves and winds in the Gulf of Mexico pretty well, and that it was the loop and eddy currents that we needed to learn more about," says Dave Petruska, an engineer with BP America Production Co. and chair of the API task force revising RP 2SK. "But Ivan, Katrina, Rita, and, more recently, Gustav and Ike, showed us that we did not know the metocean as well as we once may have liked to think we did."

In fact, one of the JIP's big discoveries was that the Gulf of Mexico has a number of distinct meteorological zones distinguished by storm severity. These presently are configured as East, West, West Central, and, the severest, Central. The improved and standardized metocean data it produced became the basis for a number of advances in industry knowledge and field practice.

The JIP was active for 18 months and delivered several landmark achievements. One was its critical input to API RP 95 F, the Interim Practice for Gulf of Mexico MODU Mooring, making the minimum design criterion for hurricane season at all Gulf of Mexico locations a 10-year return period event, with minimum design wind speed being 64 knots – meaning all MODUs should be able to resist a Category One hurricane. This was the significant increase in criteria that regulators had been hoping for.

"The minimum requirement we proposed for the Central Zone is a huge increase over the criteria used in the past," says John Stiff, a senior consultant with ABS Consulting and among the JIP's technical drivers. Not only did the actual metocean data change, but also the requirement increased to a 10-year return period. "In order to meet these new criteria the drilling contractors have upgraded their MODUs and have installed mooring systems that have probably doubled their return period capability."

The JIP also established generic “default” data for each zone, to aid preliminary design of a drilling unit or be used in lieu of site-specific data. It also set criteria for developing site-specific data. The big change to the metocean data was not just that it became more severe, says Stiff, but that it also became far more organized.

“Data had been coming from multiple sources; there were no standards for its development; there was no requirement for data quality control; and there was no default data that was generally conservative for each area,” explains Stiff. “Today there are firm requirements on the metocean methodology supporting a mooring system, which helps to ensure consistency in design criteria.”

The new knowledge has been embraced by the metocean community and incorporated into the interim standards of API Bulletin 2-INT-MET, which is expected to soon become a full Recommended Practice (RP 2-MET) and eventually adopted into ISO standards.

Safely improving safety

Once the Gulf’s true weather conditions were identified, the risks and deficiencies in existing MODU mooring criteria could be named and ways to improve the rigs developed. Many in industry consider among the top JIP effects that rig moorings were toughened up without trashing existing chain and wire equipment or otherwise raising risk levels for the mooring installation sector. As a result of the JIP’s MODU Mooring Reliability Analysis, nearly all MODUs now working in the Gulf have upgraded from eight to 12 mooring lines.

“The deterministic mooring analysis quantified the current moored MODU fleet, which had not been done before,” says Evan Zimmerman, engineering manager at Delmar Systems and the person responsible for the JIP’s mooring analysis work. “This was critical, in my opinion, because it provided the industry and regulators the big picture on what the updated Gulf of Mexico metocean meant to the existing fleet. These results also quantified the benefit of different mooring configurations across the fleet and water depth ranges,” he explains. “The reliability mooring analysis and mooring failure investigation work also provided some valuable performance data on the existing MODU fleet. This work gave the industry a better handle on how well our design practices were and confirmed that Hurricanes Katrina and Rita were indeed extreme storms and overloaded the mooring systems.

“The moored MODU owners did an excellent job in increasing their mooring capabilities while not placing the installers in a situation that increases offshore safety risks during installation,” he notes. “The equipment selected was well chosen from current mooring component technology. The JIP also brought light to the benefit of polyester rope in catenary mooring systems and drove us and the other mooring installation contractors to increasing our rental inventories to be able to offer operators more choices in mooring configurations to optimize mooring performance on higher risk locations during hurricane season.”

Another milestone in the JIP’s risk assessment work raised awareness of the severe potential consequences of a rig breaking adrift. To address the issue, the JIP developed the industry’s first template for considering risk in deciding what wells to drill where and when. The 25 short-answer questions in its “MODU Risk Checklist” for the 2006 hurricane season yielded a “risk score” that could guide projects towards enhanced safety. Since 2006 it has evolved into the more detailed and complex “Enhanced Consequence Checklist” now in use.

The MMS closely tracked the JIP’s progress and praises its achievements.

“MMS and industry are now much better prepared to manage mooring risks during hurricane season, because mooring capabilities have been improved and effective risk assessment tools have been developed,” says an MMS spokesman. “These actions contributed to the improved performance of moored MODUs during hurricanes Gustav and Ike.”

“Through the JIP, a framework has been laid to use future hurricane events to assess the current initiatives,” says Petruska. “Now we need to bring in future events, in particular the failures, to validate the processes now in place. In the long haul, the plan is to not need a risk assessment for every site, but to be able to develop prescriptive design criteria. It will take analysis work like the JIP did to help set those criteria.”

McMoRan Exploration updates GoM activities

Offshore Magazine, May 28, 2009; <http://www.offshore-mag.com/index/article-display/363516/s-articles/s-offshore/s-drilling-completion/s-us-gulf-of-mexico/s-mcmoran-exploration-updates-gom-activities.html>

Offshore staff

NEW ORLEANS -- The Ammazzo deep gas exploratory prospect on South Marsh Island block 251 has been drilled to measured depth of 25,488 ft (7,769 m), according to McMoRan Exploration. The well encountered a significant sand section with high quality reservoir rock below 24,500 ft (7,468 m), which was determined to be wet. While the well was evaluated to be nonproductive, the important geological information gained from the well continues to support McMoRan's belief that there are large, deep structures with the potential to contain significant hydrocarbon reserves available on the shelf, the company says. The Ammazzo well will be temporarily abandoned as future plans are considered.

In March, the company began drilling on the Cordage deep gas exploratory prospect towards a proposed total depth of 19,500 ft (5,943 m). The Cordage prospect, which is located in West Cameron block 207, is targeting Rob-L and Rob-M (Operc) sands in the Middle Miocene. Upon completion of operations at Cordage, the rig will be moved to the Sherwood prospect on High Island block 133 to begin exploration drilling activities.

Earlier this year, McMoRan re-entered a previously existing wellbore and began sidetracking operations at the Blueberry Hill deep gas prospect on Louisiana State Lease 340. The well is currently drilling below 14,700 ft (4,481 m) with a proposed total depth of 24,000 ft (7,315 m). In February 2005, McMoRan encountered four hydrocarbon bearing sands in the Gyro section below 22,200 ft (6,767 m) in the original Blueberry Hill exploratory well. Completion efforts in 2007 were unsuccessful because of blockage above the perforated intervals. The sidetrack currently in-progress is targeting the same Gyro sands, which McMoRan believes could be better developed in a down dip position on the flank of the structure.

McMoRan is currently conducting a feasibility assessment to determine the practicality of re-entering a previously abandoned wellbore to evaluate the Davy Jones ultra-deep prospect. Davy Jones is a very large ultra-deep structure, northwest of Ammazzo. This exploratory well, which McMoRan will operate, has a proposed total depth of 28,000 ft (8,534 m) and will test Eocene and Paleocene (Wilcox) sections.

In May, the Minerals Management Service granted McMoRan's request for a geophysical Suspension of Operations (SOO) to extend leases in the Blackbeard area, including South Timbalier block 168. The SOO will provide time for seismic re-processing, which will provide a clearer picture of the deep structure, and allow the company to evaluate whether to drill deeper at Blackbeard West, drill an offset location, or complete the well to test the existing zones.

Following the Flatrock discovery in OCS 310 on South Marsh Island block 212 in July 2007, McMoRan has drilled five additional successful wells in the field. Four wells have begun production and gross production from the field averaged approximately 220 MMcfe/d in the first quarter. Production from these wells is currently temporarily shut in for previously reported planned facility expansion, maintenance, and remediation activities.

First production from the Flatrock Nos. 5 and 6 wells is expected by mid-year. In April, a successful production test was performed on the Flatrock No. 6 well. The production test, which was performed in the Rob-L section, indicated a gross flow rate of approximately 22 MMcf/d of natural gas and 485 bbl of condensate on a 16/64th choke with flowing tubing pressure of 10,680 psi. The company believes the well is capable of producing at a gross rate of 50 - 60 MMcfe/d. Following these activities, McMoRan expects the gross production rate from the six wells in the field to approximate 335 MMcfe/d.

McMoRan is also evaluating a sidetrack of the Hurricane Deep well on the southern flank of the Flatrock structure to test the Gyro sand encountered in the well on South Marsh Island block 217. The Hurricane Deep exploratory well was drilled to a true vertical depth of 20,712 ft (6,313 m) in 1Q 2007 and logs indicated a thick upper Gyro sand totaling 900 gross ft (274 m), the top 40 ft (12 m) of which was hydrocarbon bearing. McMoRan believes an up dip well has the potential to contain a thicker hydrocarbon column.

"Our Flatrock discovery confirmed the presence of sands with high permeability and porosity below 15,000 ft (4 572 m) and the results from the Ammazzo well indicate sands with high porosity, similar to the porosity present in large deepwater discoveries, also exist at 24,500 ft (7,468 m)," says James R. Moffett, co-chairman of McMoRan. "The data from these wells, together with information from the Blackbeard West well and McMoRan's extensive 3D database, are allowing us to correlate the depositional trends from the onshore and the deepwater, which will enable us to continue to pursue a major new exploration frontier on the Shelf of the GoM."

Enviro groups, native Alaskans ask court to hold firm on state leasing decision

E&E News, May 28, 2009; <http://www.eenews.net/eenewspm/2009/05/28/2>

Ben Geman

Environmentalists and native Alaskans are urging an appellate court not to reverse a decision to vacate the Interior Department's 2007-12 offshore oil and gas leasing plan while Interior revises an environmental analysis underpinning the program.

However, the groups said in a court filing today that they would not oppose a clarification that would apply the vacatur only to areas in Alaska's Beaufort, Chukchi and Bering seas while Interior revises the study. The five-year plan also encompasses areas in the Gulf of Mexico and includes a proposed sale off the Virginia coast.

At issue are the effects of an April ruling by the U.S. Circuit Court of Appeals for the District of Columbia that found Interior had improperly analyzed the "relative environmental sensitivity" of different areas slated for inclusion in the 2007-12 outer continental shelf plan.

The court vacated the plan and ordered a new analysis.

But Interior earlier this month urged the court to clarify the scope of the ruling and said vacating the plan would be harmful. Interior said the court should have sent the plan back for the new environmental review without vacating.

The American Petroleum Institute, intervenor in the case, also has asked the court to revisit its decision to toss out the leasing plan.

Interior said vacating the plan would raise doubts about future lease sales and call into question 487 leases already sold in the Chukchi Sea and 1,854 Gulf of Mexico leases.

But the groups that challenged the leasing plan said it would be damaging for the court to allow the leases sold in the Chukchi Sea in February 2008 to stand, citing harms from seismic work and other concerns. That sale was the only Alaskan sale to date under the current 2007-12 program, but others are planned.

The parties that challenged the 2007-12 leasing plan -- the Native Village of Point Hope, the Alaska Wilderness League, Pacific Environment and the Center for Biological Diversity -- also say vacating the plan is fundamental to a fair reanalysis of environmental sensitivities and decisions about where to lease that are based on the review.

Leaving the plan in could prejudice Interior in favor of reaching the same conclusions about which areas to lease following the new environmental sensitivity analysis, they said in the filing.

"When an agency conducts an environmental analysis after a decision has already been made, there is a greater risk that the agency will continue to move forward in the face of environmental harm," the filing states. It adds that once companies have paid Interior for leases, the agency is less likely to reverse course than if it were starting on a "level playing field."

The groups also submitted a lengthy statement from Native Village of Point Hope President Caroline Cannon that expresses a number of concerns about the effects of oil and gas development on subsistence whaling and other aspects of Inupiaq life.

"I am very concerned about oil and gas activities in the Chukchi Sea, Beaufort Sea, and Bering Sea. Not only am I concerned about these activities because of the possible impacts to my health and the health of my children and grandchildren, but those areas are the source of our food and the source of resources that are central to our cultural traditions. Those areas are also the home to animals that we do not eat, but nevertheless respect and revere," Cannon said in support of vacating the leasing program, including the cancellation of current Chukchi Sea leases.

Cape Wind secures permits to begin construction

Boston Business Journal, May 28, 2009; <http://boston.bizjournals.com/boston/stories/2009/05/25/daily52.html>

by Jackie Noble

View Larger The state has finalized a Certificate of Environmental Impact and Public Interest for the Cape Wind project on Nantucket Sound, essentially granting project developers all local and state permits to start construction.

State Energy Facilities Siting Board members unanimously approved the project with minor modifications last week, and state Undersecretary for Energy Ann Berwick signed the certificate Thursday. The certificate completes seven years of local and state environmental review of the project.

"Massachusetts has done its job to give this project a long and thorough review on the merits, and the federal review process is winding to a close," said Gov. Deval Patrick in a prepared written statement. "The time has come to see the first offshore wind farm in America rise off the Massachusetts coast, a powerful symbol of our commitment to a clean energy future."

The composite permit granted by the state can only be overturned by the Massachusetts Supreme Judicial Court. Cape Wind still needs final approval from the U.S. Minerals Management Service to begin construction.

Groups sue for more stringent sea turtle protections

Greenwire, May 28, 2009; <http://www.eenews.net/Greenwire/2009/05/28/16>

Allison Winter

Environmental groups sued the federal government today in an effort to force more stringent protections for imperiled sea turtles.

The lawsuit -- from Oceana, the Sea Turtle Restoration Project and the Center for Biological Diversity -- would force federal wildlife agencies to consider pending petitions to upgrade the protective status for loggerhead turtles and protect habitat for leatherback turtles.

The wildlife advocacy groups petitioned the Fish and Wildlife Service and the National Marine Fisheries Service more than a year ago to increase protections for the species. They want the agencies to create two distinct population segments of loggerhead sea turtles and elevate their status from "threatened" to "endangered."

A key component of the petition was a five-year government study that found all five nesting populations in the North Atlantic are declining, in part because of commercial fishing gear, shoreline development, lost habitat and global warming. And Florida beaches, thought to host the second-largest loggerhead nesting population in the world, have seen a more than 40 percent decline in nesting in the past decade.

If federal biologists upgraded protections for the turtle, the new classification could then trigger requirements for the government to designate and protect "critical habitat." Such protections could potentially force more stringent fishing regulations in ocean habitat and protections on nesting beaches from Virginia to Florida and along the West Coast.

"While the turtles already have a great deal of protection on land, there is very little protection in water," said Elizabeth Griffin, director of marine wildlife science for Oceana. "It could provide a great benefit for these species."

The lawsuit, filed today in the U.S. District Court for the Northern District of California, also calls for the government to take action on a petition to protect critical habitat off the coast of California and Oregon for the leatherback turtle, which is already listed as endangered.

Designating critical habitat in ocean waters is a relatively new field for federal wildlife agencies. The National Marine Fisheries Service is in the process of developing habitat protections for two imperiled coral species.

Griffin envisions that ocean habitat protections for the turtle could include more stringent restrictions on fishing in areas where turtles forage, limitations on long lines and scallop dredges, and requirements for special gear for all trawl fishers.

The government has already placed a number of restrictions on fishers in an effort to protect turtles. For instance, NMFS declared an emergency closure last month for part of the Gulf of Mexico longline fishery area to protect sea turtles.

The petition also asks the federal wildlife agencies to restructure the listing for loggerhead sea turtles --- currently protected as "threatened" in one group. Environmentalists want the turtle protected in two distinct population segments in the Atlantic and Pacific oceans. Griffin said the two segments make sense, since the Atlantic and Pacific turtles never cross over or intermingle, and they could allow wildlife managers to hone in on more specific threats to each population.

"It allows more flexibility in looking at the actual population, rather than trying to do the big picture," Griffin said.

The environmental groups asked FWS and NMFS to consider the changes in three formal petitions filed more than a year and a half ago. Under the Endangered Species Act, the agencies have 12 months to respond. Representatives from the groups said they opted to press forward with a lawsuit after agency officials kept extending their estimations of when they would be able to consider the petitions.

"Delaying protective actions while threats like being captured and killed by indiscriminate commercial fishing gear, nesting beach destruction, and climate change continue to accelerate makes it that much harder to pull the species back from the brink," said Miyoko Sakashita, staff attorney at the Center for Biological Diversity.

Federal agencies do not respond to pending litigation.

House draft bill would raise oil royalties

Reuters, May 27, 2009; <http://www.reuters.com/article/politicsNews/idUSTRE54Q55520090527>

By Tom Doggett

WASHINGTON (Reuters) - The royalties paid by oil companies for drilling on federal lands would increase by 50 percent, and the amount of time they could hold federal leases would be cut in half, under draft legislation being circulated by House Democratic lawmakers.

The bill, which was drafted by Democratic staff at the House Natural Resources Committee, would boost the minimum royalties to 18.75 percent from 12.5 percent of the value of oil and natural gas drilled on federal leases.

The legislation would also end the federal royalty-in-kind program, which now allows companies to turn over to the government a portion of the oil they drill on federal leases instead of paying cash royalties.

The legislation would also shorten the lease terms from 10 years to 5 years, forcing companies to quickly develop tracts or risk losing them.

The draft energy bill may be included in climate change legislation that the full House of Representatives is expected to vote on this summer.

The draft bill accepts the recommendations of the White House and would impose a fee of \$4 per acre on existing leases that are not producing energy supplies.

The legislation would impose the fee only in years 4 and 5 of a lease, going up to \$10 per acre in years 6 and beyond, until the lease begins producing or is terminated.

Energy companies have warned that higher royalties and fees would discourage investment in domestic oil and gas production.

To ensure greater transparency with federal leases, the bill would consolidate drilling activities into one bureau within the Interior Department.

The legislation would also create one basic framework for leasing federal lands for wind, solar and uranium production projects.

Interior Department employees who oversee leasing activities would be subject to stricter ethics rules.

The department's inspector general found last year there was "a culture of substance abuse and promiscuity" among a dozen department employees who accepted gifts, had sex and used illegal drugs with workers at oil and gas companies drilling on federal lands.

Draft Resources bill overhauls agency's leasing, royalties, ethics rules

Greenwire, May 27, 2009; <http://www.eenews.net/Greenwire/2009/05/27/1>

Noelle Straub and Ben Geman

Draft legislation by the House Natural Resources Committee's Democratic staff would forge a new Interior Department agency to govern oil and gas leasing on federal lands and waters while raising onshore royalty rates and tightening ethics rules.

The far-reaching bill also includes measures to improve planning for renewable energy development on public lands onshore and on the federal outer continental shelf.

The legislation has been in circulation as another panel -- the House Energy and Commerce Committee -- worked on a sweeping energy and climate change bill. Energy and Commerce Committee members approved that bill last week, and floor votes could take place as soon as this summer.

Aides to Natural Resources Chairman Nick Rahall (D-W.Va.) and House Speaker Nancy Pelosi (D-Calif.) did not provide comment by press time about whether the bills could be combined. But Rahall last week said he was eyeing additions to the House climate and energy bill.

Interior would see a major restructuring of its energy agencies under the draft Natural Resources Committee staff bill. All federal energy and mineral leasing programs would be consolidated within one bureau in Interior that would handle lease sales, inspection, enforcement and revenue collection.

Specifically, the energy portions of the Minerals Management Service and the Bureau of Land Management -- including oil and gas, wind, wave and solar programs -- would be combined into one new agency called the "Office of Federal Energy and Minerals Leasing."

That agency would be responsible for all aspects of leasing both onshore and offshore, including siting, development, regulation and collection of royalties. The director of the office would require Senate confirmation, unlike the head of MMS, which currently is the only major bureau within Interior whose top official does not require confirmation.

Employees currently working for BLM and other Interior agencies would be transferred to the new agency. All employees of the new office that conduct audits or compliance reviews would have to meet professional auditor qualifications.

Other royalty-related changes include elimination of the royalty-in-kind program, which allows industry to provide petroleum directly to Interior in lieu of royalty payments. An Interior inspector general report last year found that 19 employees, nearly one-third of the entire staff of the royalty-in-kind program, socialized with and received a wide array of gifts and gratuities from oil and gas companies with which the agency was conducting official business.

The bill also contains numerous ethics reforms aimed at correcting a host of problems at Interior, including the MMS scandal and numerous deficiencies outlined in a series of scathing reports by government watchdog agencies on how royalties are collected.

Employees of the new office would be prohibited from accepting a gift from, owning stock in or being employed by any entity engaged in "exploring for, developing, mining, transporting, processing, or trading energy or minerals."

The bill also contains a "revolving door" provision prohibiting employees from working for energy companies for one year after leaving Interior. Employees also would be subjected to financial disclosure requirements.

Violation of any of the ethics rules would be a felony.

The changes proposed by the legislation fall in line with those promised by Interior Secretary Ken Salazar. He has repeatedly promised to "clean up the mess" at Interior and to make restoring the department's integrity his highest priority. He also has been considering a reorganization of the agencies he oversees, including a fundamental restructuring of its royalty program.

"The place where we are most focused on looking at potential reorganization has to do with MMS and BLM," he said at a hearing earlier this month. An Interior spokesperson said the department is reviewing the draft bill.

"Secretary Salazar has worked and will continue to work with Chairman Rahall and Congress on reform initiatives that will help change how the Department of the Interior does business," said Interior spokeswoman Kendra Barkoff.

Other provisions in the bill would overhaul the system for energy development planning on federal lands and waters.

Provisions include new outer continental shelf "Regional Planning Councils" -- made up of federal and state officials, industry, tribes and other stakeholders -- that would undertake new strategic planning; joint BLM and Forest Service efforts to work with states planning for both renewable and traditional energy development; replacing the current administrative process for onshore public lands wind and solar projects with a commercial leasing program; and several other provisions.

The new office also would be required to prepare five-year onshore leasing programs for 11 Western states and Alaska, similar to the five-year plans currently required for offshore leasing.

Leasing, royalty changes

The bill also aims to pressure oil companies to develop leases more quickly while raising several industry costs.

It would create new "diligent development" rules for onshore and offshore leases while imposing new fees on nonproducing leases. It also would shorten initial onshore lease terms from 10 years to five and raise minimum royalty rates to 18.75 percent.

The bill also would repeal provisions in a major 2005 energy law that expanded the offshore royalty waiver program called "royalty relief."

And it would make a host of other changes aimed at improving Interior's royalty collections processes, which have been criticized in recent years by Interior's inspector general and the Government Accountability Office.

Oil industry officials and their allies quickly attacked the measure.

Andy Radford, a senior policy adviser with the American Petroleum Institute, said the bill would be harmful to domestic production, especially when viewed alongside separate Obama administration proposals to repeal several industry tax incentives. "You are looking at a real disincentive to investment and the development of resources," he said.

Added Patrick Creighton, a spokesman for the American Energy Alliance, a group that pushes for easing limits on domestic oil and gas drilling: "This latest proposal will only further restrict access to our vast domestic resources and increase the price of energy. Congress and the House Resources Committee would be well served to focus their time and efforts on policy that would increase domestic energy production, not further restrict domestic supply as this measure proposes."

The Wilderness Society's Dave Alberswerth, however, praised some provisions in the measure. "There are a number of fiscal reforms, royalty management reforms that are very laudable in that proposal," he said.

Alberswerth also lauded provisions aimed at pressuring companies to develop their current leases. The group has long alleged that Interior, under the Bush administration, was too aggressive in seeking to open new areas to leasing.

But Alberswerth is wary of plans to create a new Office of Federal Energy and Minerals Leasing within Interior, in light of the group's concerns that the agency has in the past prioritized energy development over other uses on public lands.

He said Interior does not need a "super leasing" office. "What we need is more balance in the way the public lands are managed," he said. The group has been discussing its concerns with majority staff on the Natural Resources Committee, he added.

Athan Manuel of the Sierra Club called the proposal a "mixed bag." He praised provisions aimed at helping develop offshore renewable energy. But he lamented the absence of new limits on offshore oil and gas leasing following the expiration of decades-old moratoria last year. "The bottom line for us is we don't want to see any new offshore drilling happen, and I am not sure this bill gets us there," he said.

Minerals service solicits research on Outer Continental Shelf

Hydro World, May 26, 2009; http://www.hydroworld.com/index/display/article-display/1099047720/s-articles/s-hrhw/s-tendersandnotices/s-tenders/s-minerals-service_solicits.html

A unit of the Minerals Management Service is calling for white papers on specific areas of interest to the agency, including wind projects and ocean wave and current projects on the Outer Continental Shelf. Papers are due June 22, 2009.

Authors of selected papers will be invited to submit proposals to the Minerals Management Service Technology Assessment and Research Program on Safety of Renewable Energy Operations on the U.S. Outer Continental Shelf. MMS anticipates \$500,000 could be available for the fiscal year that begins Oct. 1 to initiate new research identified through the announcement.

MMS said one of the five topic areas eligible for funding involves estimating costs for future alternative energy projects on the OCS, including wind and ocean wave and current projects.

MMS said it needs estimated costs for installing various offshore alternative energy projects. It also will use the costs to estimate the cost to decommission a project at the end of its useful life. MMS said it is not necessary to include the actual costs of structural components of the projects, but rather the costs to put components into service, such as costs to transport and install devices.

When appropriate, research will be conducted in a manner consistent with prior research, MMS said. A summary of research recently performed is available from the Internet at www.mms.gov/tarprojectcategories/alternativeenergy.htm.

An agreement between the Interior Department and the Federal Energy Regulatory Commission signed in April provides that Interior's MMS has exclusive jurisdiction to issue leases, easements, and rights of way regarding OCS lands for hydrokinetic projects. (HydroWorld 4/10/09) FERC retains authority over ocean power projects but will not issue a license or exemption for an OCS hydrokinetic project until the applicant first has obtained a lease, easement, or right of way from MMS for the site.

The announcement soliciting white papers, posted May 14, is available from the Federal Business Opportunities website, www.fbo.gov, by entering solicitation No. M09PS00071 in the "Opportunities" search box.

Submittals are due June 22 to Christy Tardiff, Contract Specialist, U.S. Department of Interior, Minerals Management Service, 381 Elden St., Herndon, VA 20170-4817. Questions are to be e-mailed by June 5 to Tardiff at christy.tardiff@mms.gov. All questions must include the solicitation number in the subject line.

House bill proposes new changes for drilling on public lands

The Hill, May 26, 2009; <http://thehill.com/business--lobby/house-bill-proposes-new-changes-for-drilling-on-public-lands-2009-05-26.html>

By Jim Snyder

Democratic staffers on the House Resources Committee have released a "discussion draft" that would raise the royalties companies pay to drill on federal lands from 12.5 to 18.75 percent and shorten lease terms from 10 to five years.

Oil and gas companies, which still give twice as much to Republicans as to Democrats, are already fighting a push to repeal \$31 billion in tax breaks and a climate change bill that could reduce demand for their products. They are now facing a third threat: the House Democratic bill that could cost the industry billions of dollars more for drilling on public lands.

“We are confronting a very difficult political environment,” says Dan Naatz, vice president for federal resources and political affairs for the Independent Petroleum Association of America.

Supporters of the Democratic bill say the changes proposed in the Federal Lands and Resources Energy Development Act of 2009 are long overdue — royalty payments haven’t been increased since the 1980s — and reflect what the companies would get in the market from private landowners.

Rising federal deficits provide more reason for the government to reassess what it charges to drill on its lands, backers argue.

“The federal government sits on incredibly valuable resources and it is about time we start maximizing the return to taxpayers,” said Tyson Slocum, who directs Public Citizen’s energy program.

To fight back, the industry says raising its costs will mean less domestic oil and gas production, which means greater dependence on foreign sources.

“This will be a great disincentive for companies to go out and explore,” said Andy Radford, senior policy adviser at the American Petroleum Institute.

“If you increase the royalty rates, you affect the economics of a project.”

Naatz said the changes will affect his group’s members in particular, independent oil and gas companies that on average employ fewer than 20 workers, not the large companies like ExxonMobil that recorded record profits on high oil prices in recent years.

Backers counter that the proposed changes will align onshore royalty rates with what companies are already paying to drill offshore.

But Naatz and Radford said the finds offshore are usually much larger, making the prospect of paying higher royalties less of an economic incentive to drill onshore.

Kenneth Medlock, a fellow at the Baker Institute Energy Forum at Rice University, said higher royalties may end up leaving less in government coffers if companies decide the price is too high to drill on federal lands.

“This could push people away from federal lands, all else being equal,” Medlock said.

Last year, the government collected more than \$3.6 billion in onshore royalty payments.

Slocum of Public Citizen said claims that higher royalties will lead to less production are a “radical interpretation.” Market prices are much more determinative of whether a company decides to drill or not, he said.

“These are not Hugo Chavez royalty rates. They are very modest when you compare them to what other countries charge,” Slocum said, referring to the Venezuelan president.

The Government Accountability Office has noted that the United States takes one of the smallest shares of oil and gas revenues of any oil-producing nation, a summary of the bill noted.

The shortened lease term, meanwhile, will likely reignite a fight waged last year between the industry and Democrats over so-called “use it or lose it” provisions.

Democrats tried to deflect anger over higher gasoline prices and defuse a push to open up the Outer Continental Shelf to oil drilling by charging the industry was not doing all that it could to drill on areas that it did have access to.

But Naatz said companies have no reason not to drill. “Companies don’t lease land to sit on,” Naatz said.

Last summer's debate demonstrated that oil and gas companies can still win a political fight even if the industry's natural allies no longer control Congress. Democratic leaders were unable to continue a moratorium on drilling in the Outer Continental Shelf.

Still, Capitol Hill used to be a much friendlier place for the industry. Republicans included oil and gas companies in a broad manufacturing tax credit that meant billions of dollars to the industry. Now that break is on the chopping block in President Obama's budget.

The fight is about more than taxes. Oil and gas producers say they feel ignored by the administration, despite talk of a comprehensive energy strategy.

"There is discussion of wind, there has been a discussion of solar, there has been discussion of efficiency," Naatz said. "The major piece of the puzzle that is not being addressed is oil and natural gas."

Florida legislators seek to lift offshore drilling ban

Energy Current, May 25, 2009; <http://www.energycurrent.com/index.php?id=2&storyid=18269>

By Catherine Dolinski, Tampa Tribune

TALLAHASSEE: Two Central Florida lawmakers are preparing to again try to lift the ban on offshore oil drilling within 10 miles of Florida's Gulf Coast.

The state House voted 70-43 this spring on a late-arrived plan from Rep. Dean Cannon, R-Winter Park, to permit drilling offshore up to 10 miles -- and as close as 3 miles -- from the Gulf Coast. The plan never made it through the Senate.

"I'm hoping we can continue the dialogue with ... supporters and opponents of the idea and maybe improve the proposal that we submitted this past session, make it better so it can come back," said Cannon, who is next in line to become House speaker.

The plan he brought forth in April would have allowed the governor and Cabinet to decide whether to approve drilling lease applications from oil and gas companies. Proponents claim that resulting royalties, application fees and severance taxes could bring the state \$1.5 billion a year, if untapped oil reserves match expectation.

Bill died in Senate

Cannon added his plan in an amendment to a simpler one from Rep. Charles Van Zant, R-Keystone Heights. The amendment arrived the night before the bill's last committee hearing, where members approved it for a full House vote. The momentum wound down when Senate President Jeff Atwater, R-North Palm Beach, refused to advance the plan without more time to give it a full vetting.

"We had the votes in the Senate for it to pass," said Van Zant, who intends to file a similar proposal for the 2010 session.

Wherever he goes now, Van Zant said, he talks up drilling. "People are afraid of looking out there and seeing all these oil rigs. But that's 1920s, 1930s, 1940s technology."

Drilling technology has improved greatly since Florida imposed its ban in 1990, according to Florida Energy Associates, a group of mostly anonymous oil and gas producers pushing the proposal.

The group continues to retain 22 state lobbyists and the Ron Sachs Communications firm to handle public relations. As they did during the session, Ron Sachs associates declined Friday to give the names of the oil and gas producers they are representing, with the exception of Lance Phillips, head of Texas-based Oil and Gas Acquisitions, who spoke to reporters on the day of the hearing.

"I like to see anyone who's participating in the process disclose who are they are, and what their interests are," said Rep. Bill Galvano, R-Bradenton, who was one of three Tampa Bay area Republicans who voted against the proposal.

Ryan Banfill, of Ron Sachs, said more group members will likely come forward as the discussion continues.

Environmentalists on alert

Eric Draper, lobbyist for the Audubon Society, accused proponents of basing guarantees of safe drilling on diagrams and speculation.

He said the very existence of vast oil reserves off the coast remains speculative, meaning there's no evidence that drilling offshore will lower gas prices or bring the state substantial income anytime soon.

"We don't know when they would go into production, how much they would produce, and we don't know that any of that fuel would come ashore for use in Florida," he said.

Environmentalists are already reaching out to coastal communities and property owners, Draper said. And with elections coming up in 2010, that could complicate things. Among those seeking higher office is Atwater, who is running for chief financial officer.

"We will make sure voters know where people were on this bill," Draper said.

Michelle Ubben, an associate at Ron Sachs, said the political advantage lies on their side. She pointed to a poll showing 59 percent of the public support the general drilling concept.

Last week, Gov. Charlie Crist said that concept merits further exploring. But to support it, he said, he would need a guarantee that it would not harm the tourism industry or the environment.

Cannon said he can provide that guarantee. He would agree to requiring that drilling be invisible from shore. "I have never contemplated, and would not support, energy exploration that presented either a visual or an environmental threat to Florida's pristine beaches."

Modern rigs must stand upright only during drilling, Ubben said. After that, oil can be pumped from an undersea platform. She also raised the prospect of "directional drilling" done from the mainland or miles beyond the visibility line.

As for environmental hazards, and the likelihood of spills, supporters and opponents remain miles apart from agreeing.

There's only one way to guarantee that tourists on west coast beaches would be safe, and that's not to drill," said Rep. Jim Frishe, R-St. Petersburg, who also voted no. "We already had one barge accident in the last decade; that put a lot of oil on our southern beaches."

Senate Community Affairs Chairman Mike Bennett said he's not too worried about that, given technological advances. Bennett, R-Bradenton, objects on a different principle. "I believe the focus should be on renewable energy, not on punching more holes."

The Senate passed a new renewable energy standard this spring but failed to persuade the House to consider it. Late in the session, both chambers buzzed with talk of combining the two measures as a compromise. Senate energy bill sponsor Jim King, R-Jacksonville, said he was amenable to that idea, but Senate leadership was not.

Though he objected to King's bill, Van Zant said he may add more support for renewable energy to his drilling proposal next year.

That's a start, Bennett said. But he would still "adamantly" oppose drilling as close to shore as Cannon and Van Zant tried to make possible. "More than likely that bill would come through Community Affairs, and I doubt it would ever see the light of day."
