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DOI should define non-producing lease before assessing fee, Salazar told

US House Interior Appropriations Subcommittee leaders asked Interior Secretary Ken Salazar a basic question when he presented his department's fiscal 2010 budget request on May 13: How does the US Department of the Interior define a non-producing lease?

Salazar couldn't supply an answer, but promised to develop one soon and consult with subcommittee members about it. He's already under pressure because the Obama administration's proposed federal budget includes $122 million of revenue annually from fees on non-producing leases starting Oct 1.

He doesn't question the idea behind the assessment. "I've practiced water law in the West. States' water laws have a similar use-it-or-lose-it feature. Oil and gas are similarly precious commodities," he told the subcommittee.

But Salazar also couldn't answer the question when Rep. Michael K. Simpson (R-Ida.), the subcommittee's ranking minority member, asked what DOI considers a non-producing lease eligible for collection of the proposed $4/acre fee.

"I think this is important, particularly if someone could be penalized for bureaucratic or legal delays which aren't his fault," Simpson said. Officials from one of DOI's major agencies, the US Bureau of Land Management, told the subcommittee last year that it can take up to four years for a federal oil and gas lessee to simply get a drilling permit, he added.

'Would be unfair'

The subcommittee's chairman, Rep. Norman D. Dicks (D-Wash.), broke in. "I have to agree with my colleague. It does take time to go through the permitting process. I think it would be unfair to penalize someone starting the day they acquire the lease. You need to give them some time," he told Salazar.

Independent producers have been asking federal policymakers what would constitute a non-producing lease since the US House Natural Resources Committee proposed instituting the charge last year in addition to bonus bids and rentals which the US Minerals Management Service and BLM already receive.

"We asked the committee's staff if their definition included leases where development was delayed by litigation. They said yes," said Daniel T. Naatz, vice president of federal resources and political affairs at the Independent Petroleum Association of America.

The idea that a producer would lease a tract and not develop it doesn't make sense, he continued. "There isn't any company which will pay bonuses and bids and then sit on a lease. If they get a sense that a lease isn't working, they're going to relinquish it," he told *OGJ Washington Pulse* following the subcommittee's hearing.

"What we've always said is that even if they know what leases are not producing, they give lessees no credit for bureaucratic delays, environmental challenges, and other obstructions," said Kathleen Sgamma, government affairs director for the Independent Petroleum Association of Mountain States, who also was in Washington on May 13.

She said that IPAMS members normally take 5-6 years to complete a comprehensive analysis for a federal environmental impact statement before drilling their first well on a federal onshore lease. Small projects of less than 10 wells which qualify for the less complicated environmental assessment take 2-3 years, she said.

'The only way'

"We've proposed working with Secretary Salazar to help him understand all the work that's done to comply with a lease's terms and requirements. That's the only way he can accurately determine if or why a lease isn't producing," Sgamma told *OGJ Washington Pulse.*

She noted that Mary L. Kendall, DOI's acting inspector general, said in a Feb. 27 report to Salazar that BLM and MMS use different definitions for non-producing properties. "There are so many data inconsistencies and incompatibilities between the two agencies that it's not surprising DOI can't tell what leases are producing or not producing," she said.

In the report, which is posted online at the DOI IG's website, Kendall said in a cover letter to the secretary that investigators "found numerous data integrity issues and confirmed that [DOI] cannot compel companies to develop their federal leases."

The examination, which the DOI IG's office begin in July 2008 at Dicks's request, found that the department has no formal policy to compel companies to bring leases into production, and that BLM and MMS risk losing millions of dollars in royalties because their tracking systems are not compatible. In one case, a communications breakdown between the two agencies could have resulted in nearly $6 million of royalties being lost over five years if the lessee had not sent its first production report to both bureaus and not just BLM. "The existing process is heavily reliant on companies doing the right thing," the report said.

In one inconsistency example, investigators found that BLM considers every lease contained in a unit producing, even though a well may not have been drilled on every lease and every lease within the unit is not paying royalties. Leases in a unit which are not required to pay royalties are categorized as "held by location in a producing unit," according to the report. It noted that MMS reports leases which are not paying royalties as non-producing both onshore and offshore in areas it administers, regardless of whether they are part of a producing unit.

Definitions differ

"Consequently, leases that are identified as producing by BLM may be reported as non-producing by MMS," it said, adding that BLM defines onshore leases determined to be capable of producing paying quantities as commercial as producing while MMS considers them non-producing.

Investigators also learned during their examination that the lease development process has many variables which are not immediately apparent, it continued. "For example, due to inherent geologic uncertainties, there is no guarantee that any given lease contains oil and gas in commercial quantities. Also, because each lease property is unique, data from currently producing leases cannot be used to predict the volume of oil and gas that might be extracted from other leases," it said.

"Overall, DOI could do much more to track the status of non-producing leases, but it may not be able to do much to promote production. Absent new policy or legislative direction, both industry and bureau officials cautioned that mandating production on all federal leases or increasing lease fees would not necessarily enhance production and could, in fact, reduce industry interest in federal leases," the report indicated.

Naatz said that the assessment would also be collected on offshore tracts, which could generate significant revenue because they are much larger than onshore tracts. But the impact would be greater on smaller independent producers who primarily work onshore, and who face a possible increase in fees for processing each drilling permit application to $6,500 from $4,000 and other expenses, he pointed out.

"It's the proverbial death-by-a-thousand-cuts for smaller operators who are facing hard economic times because of depressed commodity prices," he explained.

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Other big oil and gas issues loom beyond cap-and-trade

In a sense, some pressure was off American Petroleum Institute President Jack N. Gerard the morning of May 18.

The US House Energy and Commerce Committee was scheduled to begin marking up HR 2454 that afternoon. The bill, co-sponsored by Reps. Henry A. Waxman (D-Calif.), the committee's chairman, and Edward J. Markey (D-Mass.), who chairs its Environment and Energy Subcommittee, aimed to address global climate change by establishing a carbon cap-and-trade system in the US.

But when API and Gerard originally planned to hold a teleconference with reporters that morning, they thought that the US Senate also would be considering bills which would impose new taxes on domestic producers and refiners, and possibly further restrict access to US supplies.

The two committees with jurisdiction on those proposals delayed consideration until after Memorial Day. So Gerard and the reporters who questioned him concentrated on the reworked Waxman-Markey proposal, which its sponsors had released the afternoon of May 15.

'Rushed quickly'

Waxman remained determined to complete markup before the holiday weekend. Gerard disagreed. "Our hope is that now the legislation is finally on the street, people will be able to take a good look at it and fully analyze it. Right now, they've rushed quickly to try and complete the process which hasn't allowed anyone to do this," he said.

He also found it ironic that the bill did not recognize the industry's contribution to global climate change research so far.

"When you look closely at investments in greenhouse gas emission technology by all US industries and the federal government from 2000 to 2006, 45% came from the oil and gas industry. That makes us the leading investor," he said.

Cap-and-trade may have been more immediate, but Gerard suggested that taxes and access still mattered. "What the president talks about is reducing reliance on non-US sources. But he also has indicated the need to produce more oil and gas domestically," he said.

Not consistent

The proposed taxes in the administration's fiscal 2010 budget request are not consistent with that strategy, API's president continued. "It's very difficult to increase domestic production when you're taking away incentives to do so. The best thing for economic development and increasing government revenue is to encourage more domestic oil and gas development," he said.

When it came to access, Gerard said he has spoken personally with Senate Energy and Natural Resources Committee leaders and members. "We continue to push hard with them as well as the Interior secretary," he said.

"We emphasize that today is the day to plan for the future, and that we need to put processes in place to address needs 15-20 years down the road. Too often, we look at this through a political process with two-year election cycles. These provisions are so important so we can make the necessary investments in the next decade," Gerard said.

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Two experts urge policymakers to address long-term challenges now

Energy policymakers should not waste the opportunity lower oil prices provide to address US supply concerns, two experts told the congressional Joint Economic Committee.

"The recent rise in oil prices again underscores the present reality of long-term challenges. Even if we see significant short-term gains in global oil production capabilities, if demand from China and elsewhere returns to its previous rate of growth, it will not be too long before the same calculus that produced the oil price spike of 2007-08 will be back to haunt us again," warned James D. Hamilton, an economics professor at the University of California at San Diego.

"Once global economic growth resumes, so will growth in oil demand. That will once again put energy security, and the relation of energy to economic well-being, back at the top of the agenda. Given the lead times to develop new supplies, policy decisions made today should take into account the likelihood of future cycles, and what they mean to the American economy and to American consumers," added Daniel Yergin, chairman of IHS Cambridge Energy Research Associates.

The two experts returned to testify amid dramatically different conditions from their last appearance, observed Rep. Carolyn B. Maloney (D-NY) who chairs the joint House-Senate committee. "The most recent estimate from the Energy Information Administration is that regular gasoline prices will average $2.21/gal over this summer's driving season and that diesel fuel prices will be $2.23/gal. That's a far cry from the $4 or more a gallon for gasoline and diesel that drivers faced last summer," she said in her opening statement.

Price 'break point'

"When I had the opportunity to testify to the committee almost a year ago, oil prices were on a sharp upward trajectory. Sixteen days after that very timely hearing, they reached an all-time peak of $147.27/bbl. Although some people then were talking about $200, $250 or $500/bbl oil, it seemed clear to use at IHS-CERA that a 'break point' was nearing on prices that would market the beginning of a reversal, which we have seen," said Yergin.

When oil's price hit its peak on July 11, it was more than two months before Lehman Brothers Holdings collapsed on Sept. 15, taking the US economy from "moral hazard" to the much more frightening world of "systemic risk," with the threats of credit freezes, economic free fall, and overall breakdown, he continued.

"It is well-recognized that the main drive of the deepest recession since the Great Depression was the failure of the US and global debt and credit systems. But the surge in commodity prices, notably oil, was a very significant contributing factor," Yergin maintained.

High oil prices hit consumers hard, notably those with lower incomes, making them reduce spending, he said. They also put an unexpectedly heavy burden on many businesses, both large and small. Most notably, they helped knock the US auto industry "flat on its back," reducing consumers' ability to buy cars and leaving Detroit stranded with a product mix that it could not change quickly enough as motorists quickly moved away from what if offered.

"The automobile industry was knocked flat on its back not by the collapse of Lehman Brothers but by the price at the gasoline pump," Yergin said.

'An important factor'

Oil prices doubled between June 2007 and June 2008, Hamilton observed. "In my mind, there is no question that this latest surge in oil prices was an important factor that began in the US in 2007's fourth quarter," he said.

He disputed assertions that financial speculators pushed crude oil prices higher, saying that several other factors contributed to the run-up. "World oil production decreased slightly between 2005 and 2007. Declining production from mature oil fields in the North Sea and Mexico played a role, as did political instability in Nigeria. Saudi Arabian production, which many analysts had expected to increase to meet rising demand, fell by 850,000 bbl a day between 2005 and 2007. These declines were enough to offset production gains in places such as Angola and Central Asia, with the result that total global oil production dropped slightly," he said.

Meanwhile, demand continued to grow, according to Hamilton. "World petroleum consumption increase by 5 million b/d during 2004 and 2005, driven largely by a 9.4% increase in global [gross domestic product]. Over the next two years, 2006 and 2007, world GDP grew an additional 10.1% which, in the absence of an increase in the price of oil, would have produced further big increases in quantities consumed," he said.

"Even with price increases, Chinese oil consumption increased by 870,000 b/d between 2005 and 2007. With no more oil being produced, that meant that residents of the US, Europe, and Japan had to reduce our consumption by a comparable amount. The price of oil needed to rise by whatever it took for us to do so," Hamilton said.

Consumers finally began to respond when gasoline's US average price was more than $4/gal, he said. The abrupt spending changes which resulted can seriously disrupt certain key parts of the economy and seemed to be part of the mechanism by which earlier oil price shocks contributed to previous economic recessions. "The kinds of economy responses we saw between the fourth quarter of 2007 and the third quarter of 2008 were, in fact, quite similar to those observed following previous dramatic oil price increases," Hamilton indicated.

'Hardly helpful'

The 50-cent increase of retail gasoline prices from their recent low in December has taken away about $70 billion from US consumers' annual spending power, "which is hardly helpful for the broader challenge of restoring household balance sheets to a level where spending could be expected to pick back up," he said.

"But let me emphasize that although I believe that the initial spike in oil prices was an important element of the process that produced our current difficulties, we are currently at a point at which the multipliers and spillovers associated with the recession dynamic itself have become far more important factors," Hamilton added.

Policymakers should pursue all options, the two analysts agreed. "As part of a longer-term view, we need to get beyond the 'either/or' energy debate and take a more ecumenical approach, ensuring that combination of conventional energy, renewables and energy efficiency are all developed with appropriate environmental and climate-change considerations," Yergin said.

Major initiatives in research and development, innovation, and what he called the "green stimulus" can have significant long-range impacts, he said. "Indeed, we have never seen anything like the embrace of energy efficiency that is taking place today all across the spectrum," he said.

"But there is no single answer to the energy needs of our $14 trillion economy. Today, fossil fuels (oil, natural gas, and coal) supply over 80% of our total energy. Oil by itself is about 40%. That alone makes clear the importance of oil, and the evolution of the oil market, to our economy and security in the decade ahead," Yergin said.

His recommendations

"It is in our interest to see a diverse range of energy resources developed around the world. We should give clear signals to Canada to develop its oil sands and Brazil to develop its offshore oil. We should do more research on cleaner uses of coal. We should encourage more domestic natural gas production through hydraulic fracturing. And we should be prepared to use more of our offshore oil and gas deposits by encouraging their development in an environmentally intelligent manner," he said.

Unfortunately, the Obama administration seems to be doing trying to discourage domestic production growth by placing excessive limits on exploration and production, including making offshore drilling effectively impossible in many areas, asserted Rep. Kevin P. Brady (R-Tex.), the Joint Economic Committee's ranking minority member from the House.

"The administration would further penalize oil and gas production and move more energy jobs offshore by the imposition of a variety of new energy taxes. The Treasury justifies these tax increases by arguing that the lower taxation under current law 'encourages overproduction of oil and gas, and is detrimental to long-term energy security,' at least partly because it boosts 'more investment in the oil and gas industry than would occur under a neutral system,'" he said.

"With all due respect, a policy designed to suppress US oil and gas production is absurd. The Treasury notes that the lower taxation under current is 'also inconsistent with the administration's policy of reducing carbon emissions and encouraging the use of renewable energy sources through a cap-and-trade program.' In other words, when we need more development of domestic oil and gas, the administration is doing exactly the opposite," Brady said.

But Rep. Maurice D. Hinchey (D-NY), another committee member, said the country should more aggressively away from oil. "The amount being consumed on this planet is growing. We're importing about 70% of what we consume. We produce 6% of the world's total production but only have about 2% of its total reserves. That means we're depleting our own resources faster than other parts of the world," he said.

Yergin said that allowing for US product exports, its oil imports actually are closer to 56% of its total consumption. "That means that the US is producing 44% domestically of the oil it uses, which should be maintained. The investments will be made somewhere. If we make it attractive to invest here, that means the tax and royalty revenues will not flow into other countries' treasuries," he said.

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Gensler wins Senate's confirmation as new CFTC chairman

The US Senate confirmed Gary G. Gensler's nomination as chairman of the US Commodity Future Trading Commission on May 19 by an 88-6 vote.

It took the action five days after Sen. Maria E. Cantwell (D-Wash.) removed her hold on the Obama administration's selection. She continued to express concern about Gensler's opposition to regulating derivatives when he was US Treasury undersecretary in 1998, but added that she would not block his confirmation since US Treasury Secretary Timothy F. Geithner said he would seek much stronger controls.

"The Treasury Department's announcement was not a piece of legislation but rather a policy outline. It is now up to us in Congress to turn these concepts into law. I am committed to working with the Senate leadership to ensure that the resulting legislation closes the loopholes that have made it easy for speculators to get around well-intentioned but poorly designed controls," she said on May 14.

Gensler will take charge of an agency which came under heavy fire when crude oil prices soared to record levels in 2008's first six months despite apparently adequate supplies. Critics charged that speculators took big financial positions to drive prices higher and cashed out during the summer, causing prices to plunge before impacts from the growing economic recession started to reduce demand in October.

The CFTC also has been preparing to regulate trading of carbon credits as Congress debates a cap-and-trade program to address global climate change.

Senate Agriculture Committee Chairman Thomas R. Harkin (D-Iowa) said following the vote that he hoped Gensler would reform regulation of trading in futures and other derivative contracts. "With our current economic crisis, it is painfully clear that our nation's financial system requires a much stronger and more comprehensive regulatory scheme, and it is important that we have a strong leader at the CFTC," he indicated.

"Last week, the administration outlined a proposal for regulatory reform for over-the-counter derivatives. This was a step in the right direction, but there is still more that needs to be addressed. Earlier this year, I introduced legislation to bring these types of financial transactions onto regulated exchanges in order to add openness, transparency, and integrity in futures trading to help rebuild our financial system," Harkin continued.

He said that he planned to move forward with this legislation, was scheduling a hearing on the subject in the next month, and would call Gensler as the lead witness.

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Allowances uneven in House's cap-and-trade bill, API's Gerard says

A carbon cap-and-trade bill before the US House needs to be reworked so allowances are distributed more evenly across the entire economy, American Petroleum Institute President Jack N. Gerard said on May 18.

"We keep hearing about this legislation being a market-based proposal to begin the transition to a less carbon-based society. But it's not market-based if you give allowances to some segments and not to others," he told reporters in a teleconference hours before the House Energy and Commerce Committee began marking up HR 2454, the American Clean Energy and Security Act.

Sponsors Henry A. Waxman (D-Calif.), the committee's chairman, and Edward J. Markey (D-Mass.), the chairman of its Environment and Energy Subcommittee, made several changes from their original Mar. 31 proposal before releasing the final bill on May 15. One or two responded to US oil industry concerns, Gerard acknowledged. But the measure is still badly flawed, he maintained.

"When you look at the way they distributed 85% of the allowances, some went to segments that aren't carbon bidders. We believe it should be equitable across all carbon sources. The Waxman-Markey approach isn't. Those who produce and use petroleum are receiving little and being asked to account for much," he said.

The bill's economic implications also have not been fully considered nor does it recognize that US refiners operate in a global industry, Gerard said. "There are tariff and rebate provisions in the legislation designed to offset impacts on the steel and other industries, but the refining sector is specifically excluded. There is no transition, no ability to stay competitive. There needs to be recognition of those industries which use petroleum products as well," he said.

'You look elsewhere'

"Clearly, the incentive and direction would be to push jobs overseas. If you can't succeed in a globally competitive environment because of costs in the United States, you start to look elsewhere. That means high-paying jobs would move overseas, which is what people who are leading this effort say they want to avoid," API's president added.

A few constructive changes were made the past few weeks, notably elimination of a low-carbon fuel standard provisions which would have overlapped the federal renewable fuel standard, he noted. But the bill still has problems and should not be rushed, Gerard said. Waxman remained committed to having it ready to move to the House floor by Memorial Day.

"I'm not talking about years. I'm talking about weeks. There's plenty of time to get this right. It probably will be the most significant piece of legislation that will be enacted in our lifetime. We're going to stay at the table and continue to express our views," Gerard said.

Others also warned that committee members need to consider the bill's economic implications more fully. "Climate change legislation will have a significant cost impacts on every person and business and the economic competitiveness of the country. We must get it right or we can drive the country into a deeper recession and lose more high paying manufacturing jobs," said Paul N. Cicio, president of the Industrial Energy Consumers of America.

American Gas Association President David N. Parker applauded the bill's provision which does not bring commercial or residential gas customers under the cap-and-trade system until 2016, however. "By using energy wisely and making smart choices every day, our customers have reduced their per-household consumption so dramatically that there has been virtually no growth in emissions in nearly three decades, despite a 70 percent increase in households using natural gas," he noted.

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'This bill simply fails the national energy security test'

Bill Holbrook, spokesman for the National Petrochemical and Refiners Association, as the US House Energy and Commerce Committee marked up HR 2545, which would address global climate change by establishing a carbon cap-and-trade system in the US. The bill was co-sponsored by Reps. Henry A. Waxman (D-Calif.), the committee's chairman, and Edward J. Markey (D-Mass.), who chairs its Environment and Energy Subcommittee.

"The impact of Waxman-Markey is not only significant for domestic refiners, but also for the American driving public, farmers and truckers. In the midst of an economic recession, is it a wise decision to impose even more onerous restrictions on the American energy community? These businesses help drive, both literally and figuratively, our economy.

"Does it make good economic sense to offer up a substantial competitive advantage to foreign energy producers? Indian refiners, for example, are specifically targeting the American market for sales of refined products. All Waxman-Markey will do is ensure that the United States will be outsourcing its energy needs to foreign entities.

"Within that context, consider that more refined products will be produced by foreign companies not bound by the bill's provisions, should it actually pass and be signed into law. Under those circumstances, global greenhouse gas emissions could increase.

"Assuming a conservative carbon price of $26/ton with 2% of the emissions allowances, as the current draft of HR 2454 provides, taking into account the usual 30 days of down-time for maintenance per year, a refinery with 100,000 bbl per day of capacity would have to spend roughly $330 million annually if it were required to purchase emissions allowances for the fuels it produced.

"Aggregated, these costs would total roughly $58 billion per year for the refining community, and escalate over time as the cost of the program increases. The higher the costs that will be forced upon domestic refiners, and ultimately consumers, to comply with the bill, the greater the advantage foreign refiners will have. This bill simply fails the national energy security test."

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Senate confirms Hayes's nomination as deputy Interior secretary

The US Senate confirmed David J. Hayes's nomination as deputy US Interior secretary on May 20 after two Republican members lifted holds they had placed on his selection.

Sen. Robert B. Bennett (R-Utah) removed his block after receiving assurances from US Interior Secretary Ken Salazar that Hayes would review 77 oil and gas leases from a US Bureau of Land Management sale in December that Salazar canceled.

A failure on May 13 by Senate Democrats' efforts to invoke cloture and remove threats of filibusters by Bennett and Sen. Lisa Murkowski (R-Ala.), who also placed a hold on Hayes's nomination, elevated the matter to a point where Salazar took another look and agreed that he had relied on inaccurate information, according to Bennett. When he canceled the leases, Salazar said that individual tracts might be reviewed and possibly offered later.

"The Senate has sent a clear message that we will hold the administration to its commitment of pursing a balanced energy approach, which must include developing our energy resources here at home. I have spoken with the secretary, and he has assured me that the review will be more than a 'check the box' exercise," the Utahn said.

In a May 20 letter to Bennett, Salazar agreed to direct members of a review team led by Hayes to visit the Utah tract sites within 10 days; to meet with the BLM, National Park Service, and other government entities in the state concerning the withdrawn lease parcels; and to meet with all interested stakeholders in a community forum in Utah.

The secretary also said that he would direct Hayes and the review team to review the administrative record concerning the 77 leases and provide a report with recommendations by June 5. He said that he would supply Bennett with a copy of the

report and that he and Hayes would meet personally with the senator to review it in detail.

Murkowski said she also was pleased with the commitment by Salazar and would lift her hold. "While it's unfortunate that it required a showdown on the Senate floor, it's important that the administration respond in full and in a timely matter to senators' questions on the direction of its energy policy," she maintained.

"The Obama administration has spoken frequently about taking a balanced approach to energy policy and now it knows that we are serious about holding it to that commitment," Murkowski said.

Salazar said following the confirmation vote that he appreciated Bennett and Murkowski's decisions to lift their holds and let Hayes be confirmed as deputy Interior secretary.

"I have committed to Sen. Bennett that David Hayes, once confirmed, will promptly review the 77 disputed Utah oil and gas parcels, one by one, as I have promised, and we will determine which, if any, are appropriate for development. I have also pledged that though we will agree on some issues and disagree on others, my door will always be open to Sen. Bennett and Sen. Murkowski," he said.

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Court's decision on Alaska LNG export terminal pleases Palin

Alaska Gov. Sarah H. Palin welcomed news that a federal appeals court effectively extended the license for a liquefied natural gas export facility on Cook Inlet through 2011.

The decision by the Ninth US Circuit Court of Appeals to close its review of the US Department of Energy's decision to extend the Kenai LNG terminal and liquefaction plant's license resolved a long-standing dispute over allowing continued exports of Cook Inlet gas while assuring supplies would be available to local utilities, she said on May 18.

A recently announced agreement by ConocoPhillips Co. to supply all of the Chugach Electric Association's gas supply requirements through the export term, and a large part of the utility's needs through 2016, was at the foundation of the court's action, according to Palin.

The terminal and liquefaction plant have been operating since the late 1960s and have provided high-paying jobs to Alaskans and tax revenue to local governments, she noted. The plant's continued operation is critically important because it helps assure that gas will be available for wintertime high-demand periods, when its supply can be diverted from export to local use as needed, she said.

DOE began to consider the LNG installation's export application in January 2007. Palin said that the state intervened to help assure that local gas supply needs would be met while preserving a critical element of the Cook Inlet gas market and an important part of the Kenia Peninsula's economic base.

The state's intervention resulted in a settlement among the state; Marathon Oil Corp., the Kenai facility's other partner; and ConocoPhillips in which each company agreed to negotiate with local utilities to assure a gas supply and to drill a minimum number of new gas wells, she said.

Palin said that Enstar Natural Gas Co., a gas utility based in Anchorage, reached a supply agreement through the new export license's term with ConocoPhillips and Marathon in December 2008. The companies' May 13 agreement with Chugach Electric, a member-owned utility serving 69,000 customers from Anchorage to the northern Kenai Peninsula, means all local gas utility supply requirements will be covered during the same period, she said.

"The cooperative spirit demonstrated recently by the Cook Inlet oil and gas industry and local utilities has shown what we can do when we all work together," the governor said.

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DOE-supported publication updates Utah, Wyoming, Colorado oil plays

A new Utah Geological Survey publication provides updated information about potential crude oil plays in Wyoming and Colorado as well, the US Department of Energy said on May 18.

It said that UGS, with funding from DOE's Fossil Energy Office's National Energy Technology Laboratory, has identified geographic areas with petroleum production potential based on favorable source rock, migration paths, reservoir characteristics and other characteristics.

The three-state portfolio is important to US energy supplies because Utah oil fields alone hold more than 250 million bbl, DOE said. It said that the report can assist not only producers, but also landowners, bankers, investors, economists, utilities, manufacturers, and government agencies.

Small, independent producers who do not have full exploratory resources will particularly benefit, it added.

DOE said that the portfolio contains comprehensive maps provide geologic settings, outcrop analogs, land-use issues, best-development practices and other useful data for each oil-producing area within the three states.

It builds on previous versions which identified 10 oil plays and 13 sub-plays, including the Paradox Basin, the Uinta Basin, and the Utah thrust belt as well as a major new discovery, the Covenant field, DOE said.

The areas have produced more than 1.3 billion bbl historically, it noted. Although the 13.7 million bbl produced in 2002 marked a 40-year low point and a steady production decline, the discovery of the Covenant field reversed that decline, it said.

Ultimate benefits from the portfolio's release are expected to include new oil field discoveries, increased recoverable oil from existing fields, prevention of premature abandonment of small fields, identification of the newest drilling and recovery techniques, widespread use of best practices in each producing province, and reduction in development costs and risks, according to DOE.

The portfolio is available on CD through the NETL CD-DVD ordering system, it said.

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SEC complaint alleges fraud by Wellco Energy and its employees

A Colorado Springs company and its employees fraudulently misrepresented their oil and gas activities to potential investors, the US Securities and Exchange Commission charged in a civil complaint.

The federal securities regulator named Wellco Energy LLC; its principal, Justin William Rifkin; and salesmen Patrick Looper, Richard Pacheco, and Justin White in a complaint filed on May 14 in federal district court for the District of Colorado.

It said that the defendants defrauded investors by misrepresenting the company's role as operator in oil and gas projects, Rifkin's production experience, and Wellco's intended use of investors' funds. Among other things, it said that Wellco's offering materials misrepresented that offering proceeds would be used to fund drilling and completions, when in fact less than half of investors' funds went to that purpose.

Rifkin, Looper, Pacheco, and White allegedly solicited sales of these interests by cold-calling prospective investors nationwide, according to the SEC. Its complaint further alleged that Wellco's offerings were not registered with the commission, nor were Rifkin, Looper, Pacheco, and White associated with a registered broker-dealer.

The commission said that the court issued a temporary restraining order, order of reference to a magistrate judge, and order setting hearing upon receiving the SEC's application. It said that among other things, the court's order froze Wellco and Rifkin's assets traceable to the alleged violations pending determination of the commission's motion for a preliminary injunction.

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FERC issues draft EIS for Downeast LNG project in Maine

Construction and operation of a liquefied natural gas terminal and associated pipelines in Maine would have some adverse impacts which could be mitigated, the Federal Energy Regulatory Commission said in a draft environmental impact statement on May 15.

"Most of these impacts would be reduced to less-than-significant levels with the implementation of the applicants' proposed mitigation measures and the additional measures we recommend in the draft EIS," FERC's staff said as it issued the draft EIS on May 15.

The project would be a system with a 500 million cubic feet daily sendout capacity and 625 mmcf/d peak capacity, according to its sponsor, Downeast LNG Inc. of Robbinston, Me. The terminal and pipeline are needed to fill a supply/demand gap which is expected to reach 1 billion cubic feet daily by 2015, with moderate to high prices, it said at its website.

Tankers would be unloaded offshore and the LNG pumped onshore to storage and vaporization facilities, Downeast said. The company was founded in 2004 by Dean Girdis, who previously was gas and power director for three years at PFC Energy in Washington, DC, and worked for five years with the World Bank on energy project development and financing.

FERC said in its draft EIS that the project would consist of a terminal on the south side of Mill Cove on Passamaquoddy Bay in Robbinston and a 29.8-mile, 30-inch diameter sendout pipeline to a planned interconnection with Maritimes and Northeast Pipeline LLC's existing pipeline system near Baileyville.

The US Coast Guard, US Army Corps of Engineers, National Oceanic and Atmospheric Administration, National Marine Fisheries Service, US Environmental Protection Agency, and the Maine Department of Environmental Protection contributed to the draft, the federal gas pipeline regulator said.

It noted that the Coast Guard's letter of recommendation said that the Passamaquoddy Bay waterway was suitable for the type and frequency of marine traffic which would be associated with the proposed project if risk mitigation recommendations outlined in the Water Suitability Report are fully implemented.

Sponsors now plan to apply for state permits and hope to receive them later in 2009. They said that commercial discussions began with LNG supplies in 2008, and the project will seek financing later this year after awarding the engineering, procurement, and construction contract. Construction would begin in 2010, with completion by the end of 2012 so the facility could begin operating in 2013, they said.

Comments on the draft EIS will be accepted until July 6, FERC said. Commissioners will consider the staff recommendations in both the draft and final EIS before making a decision, it indicated.

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