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Offshore Drilling Debate

Posted by Gail the Actuary on September 16, 2008 - 10:20am
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Tags: energy legislation, legislation, offshore drilling, original [list all tags]

Update: 9/17: This legislation passed 236 to 189 the House of Representatives yesterday. The Senate is not scheduled to vote on the same legislation. Instead, it is working on a drafting a different plan that would give a handful of southern states the option to expand offshore drilling. It is questionable whether anything can be passed by year end. Also, President Bush has said he would veto the version passed by the house, if such a plan is passed. (But all the representatives who voted for the legislation can tell their constituents they did so!)

Legislation that would remove the ban on offshore drilling is now being debated in Congress, and can be seen on C-Span. What is involved? The area involved is a band between 50 and 100 miles out, along the East and West coasts. These are areas that may contain a little oil, but are not areas where geological evidence would suggest that a significant amount of oil is likely to be available.

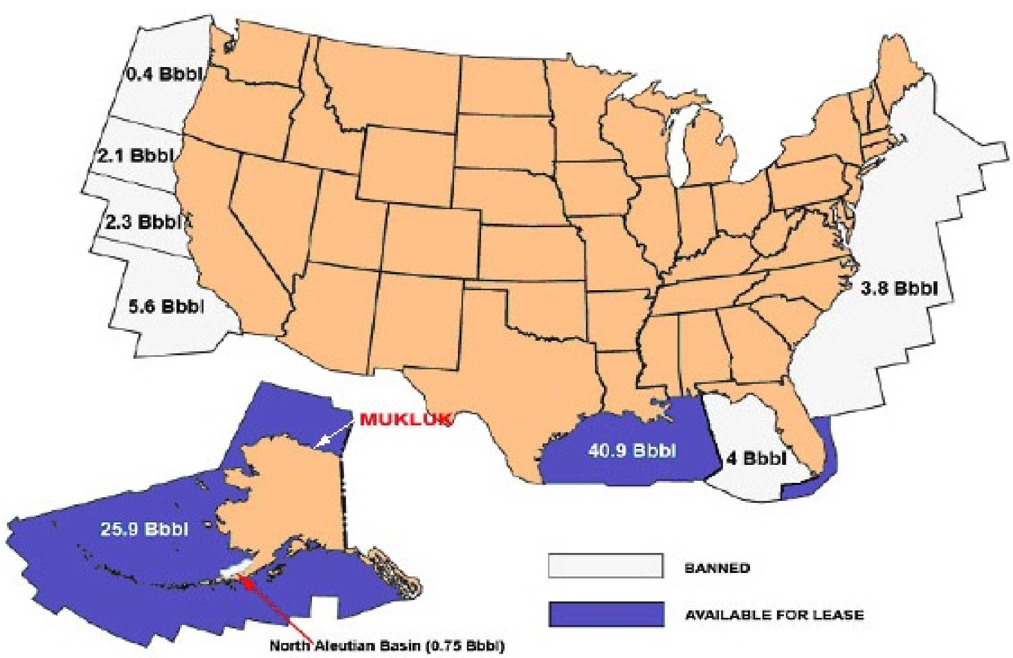

Figure 1. Offshore drilling map, adapted from ASPO-USA newsletter article. Oil resources based on MMS 2006 analysis

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According to an article in the San Francisco Chronicle:

> Waters within 50 miles of shore would be off-limits. States could choose whether to drill between 50 and 100 miles, but would be offered no financial incentives - such as a share of oil royalties - for taking the environmental risk of putting oil and gas rigs off their shores.
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> The bill would let the federal government decide whether to drill more than 100 miles offshore. But drilling supporters note that the distant location of the areas would make it more difficult to drill and to deliver oil and gas to shore.

According to a Red Green and Blue article,

> Some oil industry representatives question the effect of the proposals, citing federal studies that show that more than 80% of known oil reserves are inside the 50-mile limit and therefore unavailable. Very little is known about oil reserves beyond 100 miles. Waters off almost the entire Pacific coast — where all three governors oppose drilling at the 50-mile barrier — is considered too deep for drilling 100 miles offshore.
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> “You would just open a door to an empty room at the end of a very long hallway,” said Brian Kennedy, spokesman for the Institute for Energy Research, an organization funded by the oil industry. Kennedy also said that, without some sort of revenue sharing for state governments, there would be little incentive for states to approve additional drilling.

The compromise would offer a lot of benefits, in return for ability to do this drilling, according to the same Red Green and Blue article:

> The compromise contains a 5-year extension of the renewable energy tax credits, which are key to the growth of the renewable energy industry. The bill would invest $84 billion in conservation and efficiency, which will be fully offset with loophole closers and other revenues. Approximately $30 billion will come from new revenues from the oil and gas industry through such measures as repealing a tax break for oil companies which Democrats have long sought.
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> The bill also funds
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> • A $20 billion “Apollo Project” like effort to support the goal of transitioning 85% of America’s new motor vehicles to non- petroleum-based fuels within 20 years;
>
> • $7.5 billion for R&D focused on the major technological barriers to alternative fuel vehicles, such as advanced batteries;
>
> • $7.5 billion to help U.S. automakers and parts makers re-tool and re-equip to become the world leader in making alternative fuel vehicles;
>
> • Consumer tax credits of up to $7,500 per vehicle to incentivize Americans to purchase advanced alternative fuel vehicles (those that run primarily on non-petroleum fuels) and up to $2,500 to retrofit existing vehicles with advanced alternative fuel engines;

• New consumer tax credits of up to $2,500 to purchase highly fuel efficient vehicles, to help Americans reduce their annual gas costs and reduce oil imports;

• Extending and expanding the $2,500 tax credit for hybrid electric vehicles;

• $500 million for R&D into new materials and other innovations to improve vehicle fuel efficiency;

• $2.5 billion in R,D&D on next generation biofuels and infrastructure;

• Tax incentives for the installation of alternative fueling stations, pipelines and other infrastructure;

• Expanding transmission capacity for power from renewable sources;

• New dedicated funding for the weatherization assistance program;

• Provides grants and loan guarantees for the development of coal-to-liquid fuel plants with carbon capture capability. Plants must have lifecycle greenhouse gas emissions below those of the petroleum fuels they are replacing;

• Supports nuclear energy by increasing staff at the NRC, providing workforce training, accelerating depreciation for nuclear plants, and supporting R&D on spent fuel recycling to reduce nuclear waste;

• Provides a CO2 sequestration credit for use in enhanced oil recovery to increase production from existing oil wells while reducing greenhouse gas emissions.

It is not too surprising that the oil and gas industry is not in favor of the legislation. The legislation provides for a whole host of benefits, and a big piece of the cost would be paid for by new taxes on oil and gas companies. The off-shore drilling provision could best be described as window dressing.

The remainder of the cost would presumably be covered by higher taxes. I am willing to bet this will not happen. Instead, the higher cost will just be added to the deficit. Looks like legislation both Democrats and Republicans can favor!