Energy
Larry Summers and Ed Markey debate whether to lift the ban on U.S. oil exports imposed by Congress in 1975

"If we allow oil exports, the price received by U.S. producers will rise, which will lead to more production—meaning more employment and investment. Permitting the export of oil will actually reduce the price of gasoline. "Oil that's made into gasoline is oil that's largely imported. It's tied to Brent (crude), the world benchmark, which is $5 to $10 higher than U.S. oil in West Texas. U.S. exports would raise the supply of Brent. The same demand and a larger supply means a lower price. It's the rare policy that stands a good chance of benefiting producers and consumers. "Exports will create the need for infrastructure, which will create jobs. Optimists think this could mean as much as 1 percent more GDP by the end of this decade. To generate just half a percent more with fiscal policy would require an extra $60 or $70 billion a year. That's not likely to pass, and if it did it would have substantial debt consequences. "A lower trade deficit will mean a stronger dollar, will mean lower-priced imports, which will make America richer. As an oil exporter, we'll have the kind of leverage other oil exporters wield. By producing more oil and exporting it, we put downward pressure on prices, which is the most important sanction we can engage in with response to Russia and the Middle East."

"We're still importing a third of all the oil we consume, nearly as much as when the ban was put in place 40 years ago. That vulnerability helped infuse oil into our foreign policy, our economy, and our national security unlike any other product. We would be shortsighted to treat oil like any other commodity. The government projects U.S. oil production will peak at 9.6 million barrels a day in 2019, and we'll still be importing 3 to 4 million barrels of oil a day. That's a vulnerability we should focus on mitigating rather than talking about exporting oil so producers can make more money. "Allowing exports will raise the price of domestic oil, but there's no guarantee it will lower the international price of oil. It could simply raise U.S. prices to the level of the international market, which will lead to higher gasoline prices in the U.S. "There are billions of dollars of refinery capacity additions and upgrades in the works today. That's why the U.S. steelworkers and the thousands of their members who work in refineries support the ban. If we export our oil, we export thousands of U.S. refining jobs rather than letting the market work to increase U.S. refining capacity. Lifting the ban is a mistake on so many levels. Why would we want to export this huge asset when we have such an incredible chance to make ourselves more energy-independent?"

Cleaner Oil Sands

A new extraction process in Utah may result in less toxic waste. It costs less, too

Next year a small Toronto-based energy company plans to begin selling oil made from what it's calling "America's first environmentally friendly oil sands project." MCW Energy Group has built a processing plant in northeastern Utah, where about 32 million barrels of heavy crude are trapped in layers of sand and silt. MCW says it can extract that oil without creating the toxic wastelands that have resulted from oil sands projects in Western Canada. The key is a paint thinner-like solvent that MCW uses to separate the oil from crushed rock and sand. The extraction process uses no water. Rather than leaving behind massive tailing ponds filled with millions of gallons of toxic sludge, the sand will be delivered back to the site after it's cleaned of about 99 percent of the oil. It's not just cleaner, MCW says, it's also cheaper. Processing a barrel of oil will cost MCW about $38, compared with roughly $75 for oil from Alberta. Its plant can handle only about 250 barrels a day, but its small scale could be a model for oil sands projects around the world, especially as lower oil prices keep companies from making huge investments in traditional oil sands operations. On MCW's heels is Calgary-based US Oil Sands, which will open a similar plant in Utah next year to produce about 2,000 barrels per day using its "citrus-based" solvent. —Will Grant
The cornerstone of President Obama’s effort to address climate change is the first-ever federal rule limiting the amount of carbon dioxide that can be released by power plants, the source of a third of all U.S. emissions. The 450-page draft regulation, unveiled in June by the Environmental Protection Agency, would require utilities to cut emissions 30 percent by 2030, chiefly by forcing them to upgrade their older, dirtier-burning plants or by making them switch from coal to natural gas by 2020.

It now seems unlikely that initial target will make it into the final rule, due to be released next June. Already, the EPA has said it’s considering an extended time frame for reducing reliance on coal to 2029, giving utilities almost an extra decade to adapt. “The key to making our Clean Power Plan ambitious and achievable is flexibility,” EPA Administrator Gina McCarthy said in October.

The EPA’s shift came after intense lobbying by utilities, which have largely taken the position that they can live with cutting coal use, as long as they can wait until their plants reach the end of their natural life spans. American Electric Power, a Columbus (Ohio)-based utility that’s one of the nation’s top coal users, says the EPA has overestimated the emissions reductions that can be achieved by making older coal plants more efficient. Joe Power, vice president for federal legislative and regulatory affairs at St. Louis-based Ameren, says, “We need a glide path to that target.” His company, which wants the EPA to extend the deadline for cuts to 2035, has hired former Democratic House leader Dick Gephardt and former Republican Senator Kit Bond, both of Missouri, as well as the lobbying firms Bracewell & Giuliani, where former New York Mayor Rudy Giuliani is a partner.

Not all the pressure on McCarthy has come from those trying to weaken the rules. More than 1.5 million people have already submitted their views to the EPA during a public-comment period, thanks to a push from groups such as the Sierra Club, which put a form letter on its website for members to send to the EPA. “If you knock back the 2020 target, you would undercut the seriousness” of the plan, says David Doniger, head of climate programs at the Natural Resources Defense Council. With negotiations under way on a new United Nations climate-change agreement, expected to be completed at a Paris summit in December 2015, “the U.S. needs to demonstrate that it’s doing things here at home,” he says.

The EPA’s proposed 30 percent emissions cut isn’t quite as tough as it looks. It’s based on 2005 levels, and utilities have already curbed emissions 15 percent nationally since then by replacing aging coal plants with natural gas plants and switching to renewable power. The plan also gave coal-dependent states such as Kentucky and West Virginia—where getting electricity producers off coal is harder—a break in the form of lower emissions-reduction targets, while it asked states like Texas, where natural gas is plentiful, to make bigger gains. McCarthy has said she expects “significant” revisions to the initial state targets and may add regional targets for renewable power such as solar and wind.

Coal producers are still trying to block the rule altogether. “This is all pain and no gain,” says Kevin Crabtree, chief executive officer of Alpha Natural Resources, the second-biggest U.S. coal producer. Bristol (Va.-based Alpha and St. Louis-based Peabody Energy, the country’s largest coal producer, have hired former Republican lawmakers, including former House Speaker Dennis Hastert of Illinois, to push bills through Congress that would block the EPA from making any rules on emissions that could lead to higher electricity prices for consumers.

Those measures, which include a bill sponsored by Senate Republican leader Mitch McConnell of Kentucky, could get a boost in the next session from the Republican gains in the midterm elections—though it’s almost certain Obama will veto any attempt to gut the EPA rule entirely. That’s increased the willingness of electric utilities and states to play ball with the White House. “They understand where the president is,” says Carol Browner, who served as head of the EPA under President Clinton. “There’s no ‘if’; it’s just ‘what.’”

—Mark Drajem, with Jim Polson

Coal Lobbies for More Time to Burn

Amid intense debate, the EPA hints it will slow down its plans to wean the U.S. off dirty energy
**Putting U.S. Energy**

600K

- Maximum number of barrels per day that could be unloaded from trains in Washington and California by the end of 2015.

- The Keystone XL pipeline isn't dead yet. The Obama administration could decide on its fate in 2015.

- Oil railed in from North Dakota should help cut California's reliance on foreign imports in 2015.

- Permian Basin oil production could reach 1.6 million barrels a day by the end of 2015, adding to the oil glut in West Texas.

- Crude imports from Mexico are expected to drop to 380,000 barrels a day through 2015, down from 1 million in 2011.

- If the sage grouse is put on the endangered species list, millions of acres could be off-limits for fracking.

- Total cost of the Cactus Pipeline, which will move 200,000 barrels a day from West Texas into another pipeline to be sent east toward refineries in Corpus Christi.

- $375m
The oil and gas boom will bring big changes in 2015.

If approved, the 1,000-mile Alberta Clipper expansion will move an additional 230,000 barrels a day from Alberta to Wisconsin, bringing the pipeline's total capacity to 800,000.

Coal plants that generate 6 gigawatts of electricity will be shut down in Ohio, Indiana, and Kentucky in 2015.

A new pipeline project, Permian-Express II, will deliver 200,000 barrels a day from West Texas to Gulf Coast refineries.

Cost of the Energy Transfer Crude Oil Pipeline project, which reverses a 678-mile natural gas line and adds 86 miles of pipeline so North Dakota oil can move from Illinois to refineries in Texas. Construction could start by late 2016.

10 new pipeline projects will help move 3 billion cubic feet a day of natural gas from Pennsylvania, Ohio, and other areas to the Midwest and along the East Coast.

$1b

Cheniere Energy will export its first shipments of natural gas to Asia and Europe late next year or early 2016.

800m

cubic feet per day of additional natural gas will be produced offshore in the Gulf of Mexico.
Energy

Expert

Outlook

Harold Hamm, chairman and chief executive officer of Continental Resources, the largest independent producer in North Dakota and Montana's Bakken oil fields

How long can the U.S. shale boom keep going?
It's not a boom as much as a renaissance. We have new technology, horizontal drilling, that has been applied in this country. We're going to see there's a lot of these rocks that we've identified as source rocks—much like the Bakken and the Eagle Ford and the Barnett and Marcellus—we'll see these rocks delineated and harvested over the next 50 years. So it's not a boom that'll go up and then fall back quickly. It's going to be here a long time. If you look back to 1973, when the embargo happened, the U.S. was producing about 11 million barrels of crude oil per day, 10.95 to be exact. Today we're at 9 million barrels of crude oil and about 2.5 million barrels of natural gas liquid, so it brings us right back to where we were in 1973.

In July, Goldman Sachs estimated that U.S. shale producers need about $85 a barrel to break even. With prices falling below that recently, is there a risk of producing so much oil that it's no longer worth drilling?
We're certainly not there yet. Goldman also went on to say that as prices go lower, people use more. So that's going to happen as well. You'll see consumption go up. We could expect demand growth here in the U.S. of about 500,000 barrels a day with these lower prices at $85 a barrel.

Given the extra expense of horizontal wells and hydraulic fracturing, can you survive in that kind of market?
We've estimated where our break-even point is. I don't like to talk about it a lot because, you know, let's don't get panicky, but we've got numbers out there about where Continental would break even. It varies by operator, but in the Bakken we've done the homework before and it's $50 a barrel. I don't think we're close to that, and I don't think we're going to be close to that. Certainly at $85 we're not laying our rigs down. We're importing a lot of oil here to the U.S. yet, so we're not oversupplying our market.

Do you think it's possible to do away with imported foreign crude?
We need trade partners, but we should be able to export our oil, too. We're exporting 4 million barrels a day of refined products. These are the products that everybody uses—gasoline, diesel, jet fuel—yet we have a ban on crude oil exports. You don't see any crude-burning jet airplanes flying around. We're exporting exactly what the consumer uses, refined oil.

Is there a risk for the industry that Wall Street will decide the returns aren't there anymore and start withdrawing money?
Markets react. They react at bad times; they react at good times. That's why they call them the markets. Stocks go up; stocks go down. Bottom was reached in oil price, and it's quickly recovering.

Where's the next Bakken?
We have a field right here in south central Oklahoma called Scoop. It's the oldest area of production in Oklahoma. It's been in production a little over 100 years. And yet oil was just newly rediscovered in several formations. The Springer is a very large, broad play in that area. And the Woodford is a tremendous play in that area. And nobody thought that anything else could be found there. That's just one great example of what's still there. We're seeing production increase here in Oklahoma. We'll pass California in oil production first quarter of 2015. We'll pass Alaska in 2017.

There are well-documented problems getting the oil from the fields to refineries—train accidents and delays in pipeline projects. How are we going to deal with that infrastructure issue?
Right now there's a lot of pipelines that have just come into service. They're being built, and new ones that are proposed are on the books. The [Keystone XL pipeline] was going to pick up 335,000 barrels a day of Bakken crude and take it to Cushing, [Okla.]. And that would have been a pretty simple situation. However, it's been blocked now six years, and it doesn't look like that's going to happen. In the meantime, though, it stopped anybody else from building needed pipelines. So that oil went on the rail. But now, since it looks like the XL pipeline is not going to happen, there are others being built. So they'll take that capacity.

Does President Obama get credit for overseeing the fastest increase ever in U.S. oil production?
Well, he stepped up and took credit for it. Who should have the credit are the independent U.S. exploration and production companies that took the initiative to find a better way to do things. They drill 66 percent of all the wells in the U.S. They produce 98 percent of the natural gas, 85 percent of the oil in the U.S. They're responsible for bringing about this energy renaissance in America, not anybody else. —Ira Boudway