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# The E&C Morning Retriever

September 15, 2008

## PELOSI'S PREMIUM GASOLINE

**SPEAKER'S PLEDGE TO DRIVERS**

**'Democrats have a common-sense plan to help bring down skyrocketing gas prices.' -- 4/24/06**

**4/24/06 PRICE:**

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**Speaker's Energy Motto:**

**Drill? It's my way or the highway (see above for details)**

# Offshore drilling bill whiffs on its mission

***Detroit News, Editorial***

Leave it to Washington to make an absolute muddle out of a straightforward assignment. Under election year pressure from voters, Congress reluctantly agreed to consider lifting the ban on oil and gas drilling in large stretches of the coastal United States. But what should have been a simple question -- lift the ban or keep it in place? -- has twisted into a complex bill that will do little to increase oil supplies but will raise taxes and increase government spending. And for good measure, it also lays another costly challenge on the automobile industry. The bill, offered by the so-called Gang of 10 senators from both parties, is picking up support in the Senate, with 16 co-sponsors now and more signing on by the day. It's pitched as a compromise, but the only thing it compromises is sensible energy policy. The bill would allow expanded drilling off the coasts of North Carolina, South Carolina, Georgia and in the eastern Gulf of Mexico. But by off coast, Congress means way off coast. Rigs would not be allowed within 50 miles of shore, meaning most of the accessible oil reserves would stay off limits. …And once again, Congress is excusing itself from the obligation to support its policy. There's no mention in the bill of building more power plants to power an expanded fleet of electric vehicles. Nor is there funding to build the infrastructure to support a bio-fuel or hydrogen fleet. …Congress ought to oppose it because it whiffs on its mission. America will be reliant on oil for decades to come, even if it pushes full speed ahead in with the development of alternative energy fuel sources. The theory that the nation can be pushed to all-green power on an accelerated timetable simply by cutting off the oil supply is dangerous, and risks limiting economic growth while raising the cost of living. …Congress should start over and produce a bill that meets that responsibility without being larded up with new tax and spend programs.

## Offshore Drilling Is Coming to a Vote

***Democrats to Offer a Mix of Proposals***

***The Washington Post***

Congressional Democrats, balancing political reality against a policy they have long opposed, are on the cusp of approving legislation that would open the Atlantic and Pacific oceans to oil drilling as close as 50 miles offshore. With votes scheduled this week in the House and Senate, Democrats have essentially given up defending the current ban on drilling within 200 miles offshore along both coasts. Instead, led by House Speaker Nancy Pelosi (D-Calif.), they are offering a mix of proposals that would allow drilling, with the waters off Massachusetts, Virginia and Georgia most likely to be the first affected …Under the Pelosi bill, scheduled for a vote Tuesday, the federal government would not share royalties with the states, devoting the money instead toward federal funding for renewable energy resources. Taxes on oil companies would be increased, with that revenue also going to alternative energy sources. …Some industry experts question the effect of the proposals, citing federal studies that show that more than 80 percent 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. …Sen. Bill Nelson (D-Fla.) has vowed to filibuster any legislation that would open the waters off Florida's western beach resorts…"If they want to get something done, they have to deal with me," Nelson said in an interview Friday…

## Send drilling rigs to the Florida coast

***Birmingham, AL Press-Register***

For A moment there, it appeared that…Pelosi was ready to join the Republican chorus chanting "drill, baby, drill. "Oil-shocked Americans couldn't be so lucky. Speaker Pelosi's proposed compromise on drilling reportedly contains an exception large enough to cover the state of Florida…. Democratic members of Florida's House delegation are bragging that the speaker has caved in to their demand for no new drilling…within at least 125 miles of the state's supposedly pristine beaches.

# Joe Barton

Print This Article

**Saturday, Sep 13, 2008**

Posted on Fri, Sep. 12, 2008

# $2 billion down the hole, and all Waxahachie got was a missed opportunity

By DAVID CASSTEVENS
dcasstevens@star-telegram.com

Pat McElroy is proud of Waxahachie.

It's the birthplace of golfing great Byron Nelson and the crape myrtle capital of Texas.

But the town's former mayor had to sigh, thinking of the opportunity lost by his hometown when he read about the successful test this week of the world's largest atom smasher in Switzerland.

Waxahachie was once the future home of the superconducting super collider.

The proton accelerator was a government-funded physics experiment designed to smash protons together to reveal the basic building blocks of the universe. To do this, subatomic particles would be hurled down a 54-mile tunnel — Geneva's tunnel is 17 miles — and smashed together with astonishing force.

Construction in Ellis County began in 1991. Workers sank 17 shafts and bored almost 15 miles of tunnels.

The project provided an estimated 7,000 Texas jobs.

Almost 3,000 of those worked at the project site or at related facilities in Ellis and Dallas counties.

The super collider was so newsworthy — and such a potential boon — that it became part of a story line on the popular television series *Dallas.* In one episode, J.R. Ewing beat brother Bobby and rival Cliff Barnes to the punch when he bought all the available land around Ellis County.

But when the estimated cost rose from $5 billion to $12 billion, Congress killed the funding in 1993.

At that time, the project had already spent $2 billion.

"It breaks my heart, even now," McElroy said. "We had gone so far, spent so much money. The advantages for our area would have been tremendous. It would have put us on the map."

He described his tenure as mayor (1991-93) as a "bittersweet" experience.

Waxahachie won the Class 4A state football championship in 1992.

"But then we lost the collider," McElroy said.

Jo Bhore served as the super collider's construction manager.

He said he was under budget and ahead of schedule when Congress pulled the plug.

"It's a tragedy," Bhore said. "Today we would have 300 of the world's brightest scientists and engineers on-site. Education in our area would have taken a quantum leap. Science in our country has really suffered. Now the scientists have left us. They're in Switzerland now."

Bhore, 75, who still lives in Waxahachie and does international consulting, blamed partisan politics for the project's fate.

"Some [in Congress] said, 'We'll get back at you, Texas.' "

U.S. Rep. Joe Barton, a Republican whose district includes Ellis County, said the collider would have been the largest physical piece of scientific equipment in the world and would have energized the academic community in Texas and the United States.

"In my tenure in the House of Representatives, going on 24 years, it's the biggest strategic mistake the Congress and the President have made," Barton said in an e-mail to the *Star-Telegram*.

Buildings at the super collider's main site were sold in 2006 to J.B. Hunt, a trucking company.

Cathy and Rick Beer were among almost 200 families displaced by the project.

After the government bought their house and 11 acres, the couple built a new home about two miles away.

"Nothing came of it," she said of the heralded project. "What a waste of money."

LAS VEGAS SUN

YUCCA MOUNTAIN:

# Raises could fell tenacious foe

## Face of Nevada's opposition to waste dump might see job stripped, agency disappear


LAS VEGAS SUN FILE

Bob Loux, left, and Rep. Shelley Berkley listen as Nevada Sen. Harry Reid speaks at a news conference on Yucca Mountain in 2006. Reid says Loux's entire career should be weighed as his fate is decided.

By Lisa Mascaro, David McGrath Schwartz, Cy Ryan

Sun, Sep 14, 2008 (2 a.m.)

Carson City — The man perhaps most responsible over the past 30 years for thwarting the federal government's plan for a nuclear waste dump at Yucca Mountain slides into the driver's seat with a mischievous grin.

He has offered to drive to lunch on this hot August day. His state-issued rusted road hog looks like it belongs on an abandoned lot. The state's fleet managers must shudder every time they see its grimy government plates.

But out here in this lonely office park where he works, miles from the Capitol in Carson City, the executive director of the Nuclear Projects Agency drives what he wants, and this car fits like a comfortable shoe.

Bob Loux is as independent as the desert sun is strong. With his longish feathered hair parted down the middle, his jeans and his short-sleeved Western shirt with pearl buttons, Loux looks, from behind the wheel of the Chevrolet Caprice, like a character in a ’70s action film.

When Loux goes to Washington, D.C., as he has regularly for three decades, there is no hiding that he is a cowboy — a suit and tie can’t change that. Nevada’s elected officials have privately relished that side of Loux — part cowboy, part rebel. They see it as fitting for a man who for most of his adult life has fought the proposed nuclear dump at Yucca Mountain, about 90 miles north of Las Vegas. Little wonder that he has worked for six governors, and survived, even flourished, under each.

But now Republican Gov. Jim Gibbons — and others — say Loux must go. Loux admitted last week he had unilaterally and improperly boosted his own salary and those of his small staff of state workers, raising his pay from $114,000 to $151,000. It is more than the governor makes, and it violates state law.

An initial review found Loux has been increasing staff salaries since 2006. A more formal audit is under way.

Lawmakers were shocked at the brazen disregard for protocol, especially as the state is suffering an extreme budget crisis. Assembly Minority Leader Heidi Gansert filed an ethics complaint and asked the attorney general’s office to consider a criminal investigation. Democratic Assemblyman Morse Arberry suggested a violation of this magnitude could mean jail time.

Yet in a matter of hours last week, the pay raise scandal morphed into something bigger. It became a debate over Yucca Mountain.

Even though polls show a consistent majority of Nevadans oppose turning the desert into a waste dump, not everyone thinks it is such a bad idea. A tenacious minority has quietly maintained it could bring economic benefits. These few Yucca-friendly voices have kept a low profile over the years and waited patiently for a day like this — an opening to change the debate.

Loux has handed it to them.

Leading conservative pundit Chuck Muth filed a civil suit to force Loux from office, while suggesting federal investigation of funds may be warranted. The head of the state Republican Party inserted party politics into the debate by being among the first to call for Loux’s resignation. Two state Republicans lawmakers from Las Vegas, Sens. Barbara Cegavske and Bob Beers, are introducing a bill to wipe out Loux’s state office and its governing commission. Cegavske still opposes the dump, but wants to create a new division responsible to the governor.

But Democratic Sen. Harry Reid, the U.S. Senate majority leader and a vociferous foe of Yucca, is among those who say Loux’s entire career should be considered as his fate is decided.

Former Gov. Richard Bryan has come to Loux’s defense.

Loux has refused to step down and is awaiting a Sept. 23 hearing before the seven-member commission that oversees his work. He cannot be fired by the governor, only the commission.

None of this was in the air that August noon with Loux and his Chevy. He enjoys wrestling with the federal government, he would say that day at different times and in various ways. Nevada is like the little guy standing up to City Hall, in his view.

It's fun, he said.

He fires up the old engine, steps on the gas with a foot inside a loafer without socks. Windows down, his hair flies in the wind.

• • •

In 1976, the state's governor, Mike O'Callaghan brought Loux to the fight, tapping the draft dodging, one-time school teacher to run the state office that would become the federal government's biggest obstacle to Yucca. Nevada was just beginning to understand its position as a desert outpost for the federal government's plan to store the waste generated from the nation's newly operating nuclear power plants.

With Nevada's history of atomic weapons testing, its vast tracts of federally owned land and its thinly populated rural areas tending to embrace the Cold War nuclear program, not everyone was against the dump.

Loux was. A young man in the 1960s who avoided being drafted for the Vietnam War by faking hearing loss, he was more interested in a renewable energy revolution than a nuclear one. He had been building solar panels on senior housing shortly before he was appointed to the state office.

With federal grant money for the state to study becoming a waste repository, Loux's office became the clearinghouse for information. By the time Congress in 1982 passed legislation naming the Nevada desert as a potential site, the campaign to stop the dump was being born.

Attitudes toward nuclear power were shifting at the time, after the Three Mile Island accident in 1979 and later after the Cherno-

byl disaster in 1986. Nevadans' distrust of the federal government grew as test site workers became sick.

In 1983, the Legislature created the Nuclear Projects Agency with a mission to protect the state vis-a-vis federal plans for a waste dump in the desert. Bryan, then the governor, appointed Loux as its first executive director.

A fiefdom was being born.

Over the years, tens of millions of federal and state dollars have flowed to Loux's office. As other states were dropped from Washington's list of possible dump sites in 1987, Loux scooped up their best opponents and added them to his team.

Early on, Loux devised a strategy that allowed no dissent from the state's opposition to the waste dump.

Because Nevada was a small state, without the political clout in Washington it enjoys today, Loux thought any hint at compromise with the federal government would weaken its hand and divide (and conquer) the opposition.

Elected officials learned to fall in line. If anyone in civic life thought there might be an economic benefit to housing the waste site, he kept it mostly on the fringe or to himself. Various pro-Yucca campaigns tried and failed to turn the debate.

Loux's strategy served the state well.

It brought him a great deal of power. He operated with unique oversight. Though appointed by the governor, he can be removed only by the commission, which meets a few times a year to oversee his work. Rarely, if ever, did the commission review Loux's budgets. It is more of a policy-setting panel, said Bryan, now the commission chairman. Loux has held the job under six governors. He has never had a performance review.

"They give us free reign to do whatever," Loux said that day in August. "Which suits me just fine."

• • •

Every Wednesday, Loux orchestrates a conference call in which scientific, legal and public relations strategies for Yucca Mountain are set.

In recent years, Loux has come to appreciate the flexibility of outsourcing. He pared back his office staff to a handful of longtime employees — a few project officers, an accountant, an IT guy (who is a former slot mechanic). He thinks he can adjust more nimbly to issues that arise by adding or subtracting contractors outside of the sometimes cumbersome state personnel system.

Loux and his team oversee about 50 consultants and lawyers fighting Yucca Mountain from around the world. Labs in the United Kingdom, for example, are studying water corrosion issues.

Those who participate in the Wednesday calls say Loux's ability to distill the many layers of technical information and make swift decisions make him a formidable leader.

"Bob is the hub," said Charlie Fitzpatrick, a Texas-based attorney whose firm was hired several years ago and was just awarded another one-year contract for $6 million.

The pay raise scandal came to light only after the fiscal 2008 books were closed and Loux's budget ran over. Loux explained last week that after an employee retired, he divided the salary among himself and his staff, who were picking up the extra workload. Apparently, he didn't account for the higher cost of retirement benefits that accompanied the salary increases. That cost helped push him over budget.

He apologized and took full responsibility.

Loux's detractors say this transgression will be too much even for the commission that oversees him. Critics long have complained the commission is a rubber stamp for the state's anti-Yucca agenda. When Gibbons tried to appoint a pro-nuclear Nye County commissioner to a vacancy this year, public outcry forced him to retreat.

Muth, the conservative activist, imagines the perfect storm in coming months: Loux is forced to resign; the Legislature convenes next year and eliminates the agency; and a more balanced conversation about Yucca Mountain begins.

"The ball has started rolling downhill," Muth said.

Losing Loux could be a critical blow to the state's efforts to block Yucca Mountain, some opponents of the project say.

After all these years, the project is at a critical juncture after the Nuclear Regulatory Commission announced last week it would begin the technical review the nearly 9,000-page project application — a final hurdle. Loux's expertise would be vital.

Bryan has stood by Loux and scoffs at the idea the state could continue fighting Yucca Mountain without the state office. At least one other commissioner, Joan Lambert, said she wants to review the case before making any decision.

Bryan sees the sharks circling and is quick to warn of the larger stakes.

"The greater danger is to use this as an ability to eliminate the state's opposition," he said. "Clearly, the pro-nuke crowd has been out to get Bob for years, now they've been handed an issue."

• • •

Loux has seen his job threatened before. In 1998, the then-chairman of the powerful House Commerce Committee, Republican Rep. Joe Barton of Texas, tried to stop the flow of federal dollars to Loux's office after auditors found Loux had misused educational funds on anti-Yucca efforts.

Two years later, Reid told then-Gov. Kenny Guinn during a meeting in Washington that Loux should be let go because he was too much of a lightning rod on the Hill, hampering the senator's efforts to get the state money to fight the dump, according to a Sun story at the time.

Somehow, he always managed to survive.

# John Dingell

# Opposing view: An investment, not a bailout

Loan program will help carmakers reduce pollution, raise gas mileage.

By **John Dingell** and **Fred Upton**

The U.S. economy has lost its footing, sparking considerable debate about what role government should play to help American companies and workers. With unemployment at a five-year high, Congress must devote the same attention to Main Street that it has to Wall Street.

Specifically, policymakers should take steps to stabilize key industries, create jobs and drive cutting-edge technology. We can begin by carrying out existing law and funding a provision in last year's energy bill.

This legislation included a $25 billion loan program for automobile manufacturers and suppliers to spur the development of new vehicles that meet aggressive pollution-reduction and fuel economy standards. Without these loans, the auto industry will not be able to design and produce the advanced cars and trucks we're requiring them to create.

The health of America's auto industry is critical to the health of our overall economy. It provides one in every 10 American jobs and supports millions of households in all 50 states. It stimulates more domestic manufacturing, generates more retail business and creates more domestic employment than any other U.S industry.

If we fail to protect these jobs and encourage innovation, the world's most efficient and sought-after vehicles will be produced outside the USA. Providing access to credit for the auto companies to build state-of-the-art vehicles would allow our nation to lead the way while protecting existing jobs, creating new, green ones, and reducing America's dependence on foreign oil.

Make no mistake: This loan program represents an investment, not a "bailout." Propping up financial institutions and providing auto companies with access to credit are not the same. These credit lines have already been authorized by Congress, approved by the president and will be paid back in full. With the current turmoil in our credit markets, auto companies cannot borrow funds from the private financial sector without paying prohibitively high interest rates.

Last year, we made a promise to encourage advanced, environmentally sound technologies in the auto industry and to drive innovation. Now, Congress must fulfill its commitment and help usher in a new era for America's greatest industry.

*Rep. John Dingell, D-Mich., is chairman of the House Energy and Commerce Committee. Rep. Fred Upton, R-Mich., is a senior member of the committee.*

REUTERS

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# Lawmakers investigate Wyeth vitamin claims

Fri Sep 12, 2008 6:43pm EDT

WASHINGTON (Reuters) - Two U.S. lawmakers are investigating advertising claims by Wyeth that promote its Centrum Cardio vitamin as a cholesterol-lowering product, according to a letter to the company released on Friday.

Michigan Reps. John Dingell and Bart Stupak are seeking related company documents following television commercials that tout the vitamin as "the only complete multivitamin that can lower cholesterol," according to the lawmakers' letter.

"We are concerned that these statements may be misleading to the general public and that patients with high cholesterol may erroneously substitute Centrum Cardio for a treatment plan prescribed by their physician," the lawmakers wrote.

As Democrats, the two men chair the U.S. House of Representatives Committee on Energy and Commerce and its Subcommittee on Oversight and Investigations, respectively.

Representatives for the company could not be immediately reached for comment.

Centrum Cardio, launched in October 2007, is part of Wyeth's Centrum line of multivitamin products.

On Wyeth's website, the company cites a 2000 U.S. Food and Drug Administration interim rule that allows dietary supplements or foods that provide of 800 milligrams of free phytosterols to claim a possible reduction in heart disease.

A daily serving of Centrum Cardio, or 2 tablets, contains 800 milligrams of phytosterols, it said.

(Reporting by Susan Heavey; Editing by Andre Grenon)

# Committee

# CONGRESS FLEXES MUSCLES ON HOMELAND SECURITY

by Phil Leggiere
Monday, 15 September 2008

***Signs of a new congressional activism on homeland security regulation, oversight.***

Fall Congressional sessions during the run-up to November elections, particularly in a presidential election year, are seldom eventful, much less path-breaking in terms of legislation or policy making. Indeed congressional committees are far more likely than not to spend these interregnums biding their time.

Late last week, however, two veteran lawmakers, one a Democrat, the other a Republican, seperately called for aggressively ambitious regulatory initiatives, one relating to securing the electric grid, the other intelligence appropriations. In tandem these signal strong new assertions in Congressional power on homeland security matters going forward.

At a hearing of House Energy and Commerce's subcommittee on energy and air quality. Rep. James Langevin (D-RI), chairman of the House Subcommittee on Emerging Threats, Cybersecurity, and Science and Technology spoke out forcefully in favor of broadening The Federal Energy Regulatory Commission regulatory authority. Click here to see full testimony.

Langevin's testimony came as the Energy and Commerce Subcommittee chaired by Rep. Rick Boucher (D-Va.) considered draft legislation that would expand the authority of the Commission, by amending its powers under the Federal Power Act.

"I want to clearly state that I believe America is disturbingly vulnerable to a cyber attack against the electric grid that could cause significant consequences to our nation's critical infrastructure," Langevin said.

"The Bulk Power System [BPS] of the United States and Canada has more than $1 trillion in asset value, more than 200,000 miles of transmission lines, and more than 800,000 megawatts of generating capability, serving over 300 million people," he declared, adding that the risk to these systems is steadily increasing.

"Ten years ago," Langevin said, "the President's Commission on Critical Infrastructure Protection (PCCIP) released a report on the risks associated with interconnected computer systems on the BPS, stating that the widespread and increasing use of supervisory control and data acquisition systems (SCADA) for control of energy systems provides increasing ability to cause serious damage and disruption by cyber means. Since the release of that study, numerous unintentional cyber incidents – from the Davis-Besse power plant incident in 2003, to the blackout, to the Browns Ferry nuclear power plant failure in 2006 – suggest that the concerns raised by the PCCIP were warranted. Malicious actors also pose a significant risk to this infrastructure." Click here to see *HSToday*'s current feature on SCADA and critical infrastructure vulnerability.

Langevin explained that his Subcommittee on Emerging Threats, Cybersecurity, Science and Technology initiated a review of the federal government's effort and ability to ensure the security of the BPS from cyberattack. In October 2007, he said, the subcommittee held a hearing on the cyber threat to control systems, focusing particularly on a vulnerability to the BPS discovered by engineers at the Idaho National Laboratory. The vulnerability – known as "Aurora" – could enable a targeted attack on infrastructure connected to the electric grid, potentially destroying these machines and resulting in catastrophic losses of power for long periods of time.

Although the Subcommittee's hearing showed that the Nuclear industry was well on its way toward implementing mitigations as advised by North American Electric Reliability Corporation (NERC),Langevin said, the extent to which Electric Sector companies were following the recommendations of the advisory was not clear. Langevin argued that the reason for this was that the electric industry was not yet held to cybersecurity regulatory requirements.

"In the interest of national security," he said, "a statutory mechanism is necessary to protect the grid against cybersecurity threats." Langevin argued that Congress needed to move quickly and aggressively to amend the Federal Power Act to grant the Commission emergency authority to order temporary interim cybersecurity or other emergency standards when necessary to protect against a national security threat to the reliability of the BPS.

"I believe that emergency standards should become enforceable upon a finding by a national security or intelligence agency in consultation or coordination with FERC that there is a national security threat to the BPS," Langevin said. "I fear that the Presidential/Secretarial determinations, as currently provided for in the draft legislation, could create unnecessary delays in the protection of the BPS. An event in cyberspace may happen in seconds, but determining to authorize authorities for a response could take hours or days – time that we simply cannot afford to waste."

Langevin also argued for the definition of BPS to be broadened to include not only generation plants, the high voltage transmission system, and associated equipment, but the distribution substations and lower voltage networks that distribute electricity to customers in a particular city or region.

"If the correct objective of the national electric power system is to generate, transmit, and reliably deliver electricity all the way out to the eventual end user – the public – then there are more links in this mission-chain than current standards fall short of the mark," he concluded.

On the seventh anniversary of the 9/11 attacks Senator Christopher Bond (R-Mo.) and other members of the Senate Intelligence Committee called for creation of a new subcommittee on intelligence within the Senate Appropriations Committee that would exercise greater, more centralized congressional control on intelligence spending. Click here to see the full proposal.

"As we thank our troops fighting in Iraq and Afghanistan, killing the terrorists before they can attack the homeland, we also thank the many patriots who fight unseen and unheard to keep our nation safe," said Bond. "I also know," he added, "that in Congress, it is our job to ensure the intelligence community has the tools it needs to detect, disrupt, and prevent attacks on America, our troops, and our allies, which is why it is important that here in Congress we never forget the critical lessons of September 11--that our intelligence proved inadequate to stop the mass murder of innocent Americans on our own soil."

Seven years after 9/11 and 4 years past the issuance of the 9/11 commission report, Bond reminded the committee that the commission's most significant recommendations for change have remained unaddressed.

In particular Bond cited the 9/11 Commission's recommendation that Congress make structural changes to improve the oversight of intelligence activities and provide vigilant legislative oversight.

“The 9/11 commission made two bold recommendations to fix the problem of faulty intelligence,” declared Bond,”either consolidate authorization and appropriation functions into a single committee in both Houses or create a bicameral intelligence committee. Both of these approaches were considered and rejected by the Senate during consideration of S. Res. 445 in October of 2004. But many of us believe there is a better, less disruptive way to achieve reform through a carefully constructive intelligence appropriations subcommittee.”

Bond proposed that a new subcommittee on intelligence would have exclusive jurisdiction over all funding for the National Intelligence Program (NIP). It would approve for full committee consideration an annual appropriations bill for the National Intelligence Program. Currently appropriations for the NIP are fragmented among several subcommittees, often under the wider umbrella of defense spending, an arrangement which, according to Bond, prevents the proper level of public scrutiny from being asserted on intelligence outlays.

“I am concerned about wasteful spending, not just in the billions of dollars, but in the dozens of billions of dollars, that the public does not know about because it is all classified,” said Bond. “I am concerned about technology programs that consume billions of dollars for a number of years and never get off the ground. Our current Director of National Intelligence boasted publicly about killing one such program early last year. But that was a program that our defense and intelligence leaders trumpeted for years as a silver bullet before finally throwing in the towel because it did not work. The intelligence acquisition system is hard to change, and the DNI and the intelligence community need Congress's oversight and accountability.

“The appropriations process is so disconnected,” Bond added, “that billions of dollars come to naught because the executive branch is not having its feet held to the fire, with the result that the American taxpayers are ill served. We hear a lot today about needed change and reform coming to Washington. Let us prove to the American people that we do not need to wait for an election to start that process.

Bond’s proposal called Senate Resolution 655 was jointly sponsored with Senators Jay Rockefeller (D-WV) and Sheldon Whitehouse (D-RI), and has now been referred to the Senate Rules Committee.

Two initiatives, of course, do not necessarily a trend make. The new insistence on asserting congressional prerogatives not only reactively, in investigating executive and Department of Homeland Security policy and projects after the fact, but proactively, through industry regulations and centralized oversight, however, may indeed augur a major shift in congressional activism on homeland security.

Phil Leggiere

About the author:
*Business Editor/Online Managing Editor,* is a journalist and business analyst based in New England, who specializes in reporting on information technology and related industries.
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HILL BRIEFS

# Copps Urges More Help For DTV Transition



Technology. FCC member Michael Copps wants the agency to spend more time preparing the nation for the technical hurdles citizens will face as they switch to digital television Feb. 17. In a letter today to FCC Chairman Kevin Martin, Copps recommended the creation of a special "FCC team" to be dispatched to at-risk communities, expanding the agency's DTV call center and providing more education about troubleshooting involving antennas and converter boxes. He also wants rapid deployment of battery-powered sets for hurricane-prone regions, on-screen alerts for viewers tuning to analog stations after the transition and assurances that stations will meet their deadlines for constructing digital transmission towers and studios. The proposals were made in the wake of Monday's early switchover in the Wilmington, N.C. area, which triggered 1,200 calls -- most of them technical in nature -- to an FCC help line over a two-day period and hundreds more to stations and a hotline in the test region. A House Energy and Commerce subcommittee will hold a DTV oversight hearing Tuesday, followed by a Sept. 23 session before the Senate Commerce Committee.

# CTCP

The New York Times
nytimes.com



**September 15, 2008**

# 2 Wall St. Banks Falter; Markets Shaken

**By ANDREW ROSS SORKIN**

This article was reported by Jenny Anderson, Eric Dash and Andrew Ross Sorkin and was written by Mr. Sorkin.

In one of the most dramatic days in Wall Street's history, Merrill Lynch agreed to sell itself on Sunday to Bank of America for roughly $50 billion to avert a deepening financial crisis, while another prominent securities firm, Lehman Brothers, said it would seek bankruptcy protection and hurtled toward liquidation after it failed to find a buyer.

The humbling moves, which reshape the landscape of American finance, mark the latest chapter in a tumultuous year in which once-proud financial institutions have been brought to their knees as a result of hundreds of billions of dollars in losses because of bad mortgage finance and real estate investments.

But even as the fates of Lehman and Merrill hung in the balance, another crisis loomed as the insurance giant American International Group appeared to teeter. Staggered by losses stemming from the credit crisis, A.I.G. sought a $40 billion lifeline from the Federal Reserve, without which the company may have only days to survive.

The stunning series of events culminated a weekend of frantic around-the-clock negotiations, as Wall Street bankers huddled in meetings at the behest of Bush administration officials to try to avoid a downward spiral in the markets stemming from a crisis of confidence.

"My goodness. I've been in the business 35 years, and these are the most extraordinary events I've ever seen," said Peter G. Peterson, co-founder of the private equity firm the Blackstone Group, who was head of Lehman in the 1970s and a secretary of commerce in the Nixon administration.

It remains to be seen whether the sale of Merrill, which was worth more than $100 billion during the last year, and the controlled demise of Lehman will be enough to finally turn the tide in the yearlong financial crisis that has crippled Wall Street and threatened the broader economy.

Early Monday morning, Lehman said it would file for Chapter 11 bankruptcy protection in New York for its holding company in what would be the largest failure of an investment bank since the collapse of Drexel Burnham Lambert 18 years ago, the Associated Press reported.

Questions remain about how the market will react Monday, particularly to Lehman's plan to wind down its trading operations, and whether other companies, like A.I.G. and Washington Mutual, the nation's largest savings and loan, might falter.

Indeed, in a move that echoed Wall Street's rescue of a big hedge fund a decade ago this week, 10 major banks agreed to create an emergency fund of $70 billion to $100 billion that financial institutions can use to protect themselves from the fallout of Lehman's failure.

The Fed, meantime, broadened the terms of its emergency loan program for Wall Street banks, a move that could ultimately put taxpayers' money at risk.

Though the government took control of the troubled mortgage finance companies Fannie Mae and Freddie Mac only a week ago, investors have become increasingly nervous about whether major financial institutions can recover from their losses.

How things play out could affect the broader economy, which has been weakening steadily as the financial crisis has deepened over the last year, with unemployment increasing as the nation's growth rate has slowed.

What will happen to Merrill's 60,000 employees or Lehman's 25,000 employees remains unclear. Worried about the unfolding crisis and its potential impact on New York City's economy, Mayor Michael R. Bloomberg canceled a trip to California to meet with Gov. Arnold Schwarzenegger. Instead, aides said, Mr. Bloomberg spent much of the weekend working the phones, talking to federal officials and bank executives in an effort to gauge the severity of the crisis.

The weekend that humbled Lehman and Merrill Lynch and rewarded Bank of America, based in Charlotte, N.C., began at 6 p.m. Friday in the first of a series of emergency meetings at the Federal Reserve building in Lower Manhattan.

The meeting was called by Fed officials, with Treasury Secretary Henry M. Paulson Jr. in attendance, and it included top bankers. The Treasury and Federal Reserve had already stepped in on several occasions to rescue the financial system, forcing a shotgun marriage between Bear Stearns and JPMorgan Chase this year and backstopping $29 billion worth of troubled assets — and then agreeing to bail out Fannie Mae and Freddie Mac.

The bankers were told that the government would not bail out Lehman and that it was up to Wall Street to solve its problems. Lehman's stock tumbled sharply last week as concerns about its financial condition grew and other firms started to pull back from doing business with it, threatening its viability.

Without government backing, Lehman began trying to find a buyer, focusing on Barclays, the big British bank, and Bank of America. At the same time, other Wall Street executives grew more concerned about their own precarious situation.

The fates of Merrill Lynch and Lehman Brothers would not seem to be linked; Merrill has the nation's largest brokerage force and its name is known in towns across America, while Lehman's main customers are big institutions. But during the credit boom both firms piled into risky real estate and ended up severely weakened, with inadequate capital and toxic assets.

Knowing that investors were worried about Merrill, John A. Thain, its chief executive and an alumnus of Goldman Sachs and the New York Stock Exchange, and Kenneth D. Lewis, Bank of America's chief executive, began negotiations. One person briefed on the negotiations said Bank of America had approached Merrill earlier in the summer but Mr. Thain had rebuffed the offer. Now, prompted by the reality that a Lehman bankruptcy would ripple through Wall Street and further cripple Merrill Lynch, the two parties proceeded with discussions.

On Sunday morning, Mr. Thain and Mr. Lewis cemented the deal. It could not be determined if Mr. Thain would play a role in the new company, but two people briefed on the negotiations said they did not expect him to stay. Merrill's "thundering herd" of 17,000 brokers will be combined with Bank of America's smaller group of wealth advisers and called Merrill Lynch Wealth Management.

For Bank of America, which this year bought Countrywide Financial, the troubled mortgage lender, the purchase of Merrill puts it at the pinnacle of American finance, making it the biggest brokerage house and consumer banking franchise.

Bank of America eventually pulled out of its talks with Lehman after the government refused to take responsibility for losses on some of Lehman's most troubled real-estate assets, something it agreed to do when JP Morgan Chase bought Bear Stearns to save it from a bankruptcy filing in March.

A leading proposal to rescue Lehman would have divided the bank into two entities, a "good bank" and a "bad bank." Under that scenario, Barclays would have bought the parts of Lehman that have been performing well, while a group of 10 to 15 Wall Street companies would have agreed to absorb losses from the bank's troubled assets, to two people briefed on the proposal said. Taxpayer money would not have been included in such a deal, they said.

Other Wall Street banks also balked at the deal, unhappy at facing potential losses while Bank of America or Barclays walked away with the potentially profitable part of Lehman at a cheap price.

For Lehman, the end essentially came Sunday morning when its last potential suitor, Barclays, pulled out from a deal, saying it could not obtain a shareholder vote to approve a transaction before Monday morning, something required under London Stock Exchange listing rules, one person close to the matter said. Other people involved in the talks said the Financial Services Authority, the British securities regulator, had discouraged Barclays from pursuing a deal. Peter Truell, a spokesman for Barclays, declined to comment. Lehman's subsidiaries were expected to remain solvent while the firm liquidates its holdings, these people said. Herbert H. McDade III, Lehman's president, was at the Federal Reserve Bank in New York late Sunday, discussing terms of Lehman's fate with government officials.

Lehman's filing is unlikely to resemble those of other companies that seek bankruptcy protection. Because of the harsher treatment that federal bankruptcy law applies to financial-services firms, Lehman cannot hope to reorganize and survive. It was not clear whether the government would appoint a trustee to supervise Lehman's liquidation or how big the financial backstop would be.

Lehman has retained the law firm Weil, Gotshal & Manges as its bankruptcy counsel.

The collapse of Lehman is a devastating end for Richard S. Fuld Jr., the chief executive, who has led the bank since it emerged from American Express as a public company in 1994. Mr. Fuld, who steered Lehman through near-death experiences in the past, spent the last several days in his 31st floor office in Lehman's midtown headquarters on the phone from 6 a.m. until well past midnight trying to find save the firm, a person close to the matter said.

A.I.G. will be the next test. Ratings agencies threatened to downgrade A.I.G.'s credit rating if it does not raise $40 billion by Monday morning, a step that would cripple the company. A.I.G. had hoped to shore itself up, in party by selling certain businesses, but potential bidders, including the private investment firms Kohlberg Kravis Roberts and TPG, withdrew at the last minute because the government refused to provide a financial guarantee for the purchase. A.I.G. rejected an offer by another investor, J. C. Flowers & Company.

The weekend's events indicate that top officials at the Federal Reserve and the Treasury are taking a harder line on providing government support of troubled financial institutions.

While offering to help Wall Street organize a shotgun marriage for Lehman, both the Fed chairman, Ben S. Bernanke, and Mr. Paulson had warned that they would not put taxpayer money at risk simply to prevent a Lehman collapse.

The message marked a major change in strategy but it remained unclear until at least Friday what would happen. "They were faced after Bear Stearns with the problem of where to draw the line," said Laurence H. Meyer, a former Fed governor who is now vice chairman of Macroeconomic Advisors, a forecasting firm. "It became clear that this piecemeal, patchwork, case-by-case approach might not get the job done."

Both Mr. Paulson and Mr. Bernanke worried that they had already gone much further than they had ever wanted, first by underwriting the takeover of Bear Stearns in March and by the far bigger bailout of Fannie Mae and Freddie Mac.

Outside the public eye, Fed officials had acquired much more information since March about the interconnections and cross-exposure to risk among Wall Street investment banks, hedge funds and traders in the vast market for credit-default swaps and other derivatives. In the end, both Wall Street and the Fed blinked.

*Reporting was contributed by Edmund L. Andrews, Eric Dash, Michael Barbaro, Michael J. de la Merced, Louise Story and Ben White.*

washingtonpost.com

# Ads That Built Google Could Now Pose Test



By Peter Whoriskey
Washington Post Staff Writer
Saturday, September 13, 2008; D01

Most people pay little mind to the text ads that surface after an Internet search.

*Flowers at 1-800-FLOWERS*

*Same Day Delivery Available*

*Your Satisfaction at 1-800-FLOWERS*

*1800flowers.com*

But appearing as they do millions of times daily, such unremarkable quatrains form one of the largest single sources of the $21 billion Internet advertising market in the United States. For Google, the undisputed master of delivering them, those slivers of text are the foundation of a digital empire.

Now that company's dominance in Internet advertising and its proposed agreement to provide some search ads to its nearest competitor, Yahoo, is being closely scrutinized by federal antitrust investigators, according to sources familiar with the Justice Department's thinking.

In what could emerge as the first serious regulatory challenge to the burgeoning Web giant, Justice Department lawyers are asking whether the proposed $800 million alliance with Yahoo will be good for consumers or another step toward a behemoth Internet monopoly.

Google and Yahoo have said since the deal was announced in June that they were confident their arrangement would win the government's blessing.

But over the summer, the department has made moves that suggest the approval is not being treated as a routine matter. In a signal that a formal investigation had opened, The Washington Post reported in July that the department had issued "civil investigative demands" for information to the companies involved. This week, the Wall Street Journal reported that investigators had hired Sandy Litvack, a veteran antitrust attorney, to oversee the review.

"From all outward signs, the department is seriously considering a lawsuit," said M.J. Moltenbrey, a

Freshfields Bruckhaus Deringer lawyer who was director of civil nonmerger enforcement in the Justice Department's antitrust division in the 1990s.

Whether the government decides to try to block the deal, moreover, the investigation allows antitrust regulators the opportunity to probe the records and interview the customers of the world's most dominant Web company. Maybe they won't find anything. But as Microsoft, the similarly dominant player in PC software, learned in the 1990s, one investigation can lead to another.

Although there are lots of types of Internet advertising -- e-mail, display ads, etc. -- the ads that pop up alongside search results account for one of the largest single chunks of Web advertising dollars. Their value stems from the fact that search ads present an advertising message to a consumer just as that consumer is expressing an interest. And just 10 years after the company was incorporated, Google's search engine handles 71 percent of the search queries in the United States, according to Hitwise.

The company's genius in search advertising stems from its ability to "monetize" search terms. That is, when someone types in keywords, Google is generally far better than its competitors at selecting an advertising message to run, based on the search query that the consumer will click on. The ads appear at the top of or alongside the search results.

Under the Google-Yahoo agreement, Google will use that same technology to provide search ads to run alongside some search results from Yahoo's search engine. Exactly which search keywords Yahoo will hand over to Google's ad technology is not known. But Yahoo has said that Google does a better job of monetizing less popular terms and those are the ones it will turn over to Google for help.

Yahoo would realize as much as $800 million in added annual revenue from the deal, company officials have said, helping to bolster the company, whose stock price has sagged of late. The deal emerged earlier this year as Microsoft was trying to buy the company, and it has been presented as a means of bolstering its fortunes.

"This deal will allow Yahoo to remain in the marketplace as a better, stronger, independent competitor," said R. Hewitt Pate, a consultant to Yahoo who was the former head of the antitrust division at the Justice Department.

Advertisers and consumers will benefit from the deal, he said, because Yahoo customers will get the more relevant ads sent by the Google technology.

Moreover, he said, Yahoo will use the added revenue from the Google deal to improve its own ad technology and make it a better competitor. "Yahoo is not interested in outsourcing the whole of its sponsored search to Google," he said. "Yahoo intends to remain an active competitor in sponsored search."

But some critics of the deal, including rival Microsoft, argue that the alliance between the first and second most popular search engines will in the end reduce competition.

The Association of National Advertisers, a trade group, has written a letter to the Justice Department citing just such objections to the deal.

Noting that Google and Yahoo "control 90 percent of search advertising inventory," the group said the deal "will likely diminish competition, increase concentration of market power, limit choices currently available and potentially raise prices to advertisers for high quality, affordable search advertising."

Some antitrust attorneys say it is likely that the Justice Department's ongoing review will focus on just such concerns.

"Because the deal allows Yahoo to share in the revenues from ads placed with Google, it could dramatically lessen Yahoo's incentive to compete," Moltenbrey said.

But, she noted, regulators will also consider whether the deal would provide benefits to some industry participants, as Google and Yahoo argue.

Ultimately, the regulators will have to determine whether the negatives of the arrangement outweigh its benefits. "If the evidence of harm to competition is clear, however, the parties will need clear and persuasive evidence of both the existence of and the magnitude of the alleged benefits," she said.

# Energy/Environment

The New York Times
nytimes.com



September 15, 2008

# Gas Prices Climb Quickly as Refineries Remain Closed

By CLIFFORD KRAUSS

HOUSTON — Oil companies were warning motorists on Sunday that they would not be able to produce adequate supplies of gasoline in the days ahead because so many of their refineries were still not operating in the aftermath of Hurricane Ike. As a result, prices at the pump began soaring again.

Already in the last two days the average price for a gallon of gasoline has increased to nearly $3.80 from $3.68, according to AAA, a jump that has been rare since the oil price spikes of the 1970s and 1980s. Drivers throughout the South and Midwest, which depend on Gulf refineries, are reporting increases of 30 to 40 cents at some gasoline stations over the last couple of days.

The culprit is a combined blow from Hurricanes Gustav and Ike, which have shut down almost all oil and natural gas production in the Gulf of Mexico for over two weeks and thrown a wrench into refinery operations in Texas and Louisiana.

At least 14 Texas refineries, representing nearly a quarter of the nation's refining capacity, will probably remain shut for the next week or more. Three more Louisiana refineries may be damaged from widespread flooding.

"It may not be possible for us — and other manufacturers — to maintain normal supplies in the coming days," Chevron stated in a bleak assessment on its Web site on Sunday, warning of "severe supply disruptions in the wake of Hurricane Ike."

The Energy Department said it would release more than 300,000 barrels of reserves from the Strategic Petroleum Reserve to refiners, and indicated that it would help to keep supplies going to refineries that were still running. But oil companies said power outages at refineries and pipelines and at hundreds of gasoline stations around the Gulf area were going to make distribution of fuel difficult for awhile.

Refiners began to send crews as early as Saturday afternoon to visit refineries along the coast after Hurricane Ike passed quickly through the area. Preliminary reports indicated that the refineries in Texas did not suffer significant flooding or other damage, but company officials said they did not want to speculate about how long it would take to resume normal operations.

It will also take time for companies to fly over and board hundreds of oil and gas platforms on the Gulf that were jostled by Hurricane Ike's extensive wake and gusts. The United States Minerals Management Service reported that at least 10 platforms — out of 3,800 in the Gulf — had been destroyed. At least two oil drilling rigs broke loose from their moorings. There has been no estimate yet of any environmental damages.

Platforms and other production facilities around the Gulf account for about 25 percent of domestic oil production and nearly 15 percent of domestic natural gas output.

“We don’t even know when we can start the restart process, let alone how long the restart process will take,” said Bill Day, a spokesman for Valero Energy, the country’s biggest refiner. Valero has three big refineries in Houston, Port Arthur, Tex., and Texas City, Tex., that have been closed since a few days before the hurricane made landfall as a Category 2 storm Saturday morning.

Mr. Day said that crewmen had not found any serious structural damage at the three facilities, but there was no power for the Texas City and Port Arthur refineries because of a regional blackout. Meanwhile none of the three facilities have adequate fresh water supplies to generate steam because the storm surge pushed salt water through the region’s waterways.

Since most of the Houston refineries are clustered in a small area, are supplied by the same utilities and most are expected to face similar problems.

Senator Kay Bailey Hutchison, Republican of Texas, said on CBS’s “Face the Nation” on Sunday, “We are looking at another week or eight or nine days before refineries are up and going, so refined gasoline is going to be in a shortage situation because of the power outages and flooding.”

“It is going to be felt for the next week that we have gasoline shortages,” Ms. Hutchison said, “so people need to be prepared for that.”

The disruptions come as drivers were just getting used to lower gasoline prices.

Just before Hurricane Gustav hit Louisiana on the Labor Day weekend, the national average for a gallon of unleaded regular gasoline was $3.69, more than 40 cents below the highs in July. Gasoline prices had fallen sharply until the last few days mainly because oil prices have dropped since early summer by more than $40 dollars a barrel to about $100, about the level at the beginning of the year.

Crude prices on the New York Mercantile Exchange declined again on Sunday by more than 2 percent, to $99.70 a barrel a six-month low, as traders continued to view declining economic trends as more important than an active hurricane season. Declining oil prices mean that once the disruption subsides, gas prices could easily drop as quickly as they are now rising.

Hurricanes Gustav and Ike are the first major challenge to Gulf oil operations since Hurricanes Katrina and Rita of 2005, which crippled more than 100 production platforms, disrupted refinery operations and sent oil and gas prices rising for weeks.

washingtonpost.com

# Gas Prices Continue to Rise as Hurricane Destroys Oil Facilities



By Nancy Trejos and Spencer S. Hsu
Washington Post Staff Writers
Monday, September 15, 2008; A09

Gasoline prices once again soared across the country yesterday as federal officials said a preliminary survey of damage found that a number of production platforms in the Gulf of Mexico had been destroyed by Hurricane Ike.

The average price per gallon of regular unleaded gasoline climbed from $3.73 to just shy of $3.80 yesterday, according to the auto club AAA. That followed a 6-cent jump on Saturday, when Ike ravaged the Texas Gulf Coast, home to 23 percent of U.S. oil refining capacity.

Prices broke the $4-a-gallon barrier in seven states, including some as far from the storm's path as Alaska and Hawaii. In some parts of the country, there were reports of gouging, with prices reaching $5 a gallon. A flood of complaints -- more than 549 since Thursday -- led Florida Attorney General Bill McCollum to issue subpoenas to four companies seeking documentation on what they paid for the gasoline they were selling to consumers.

To ease the gas crunch, the U.S. government agreed yesterday to release 309,000 barrels of oil from the Strategic Petroleum Reserve to a Conoco Phillips refinery in Illinois and a Placid Oil refinery in Louisiana because of supply disruptions from the Gulf.

For the second time in two days, President Bush said the government would be on the alert for any exorbitant price increases in the wake of a shortage.

"The federal government, along with state governments, will be monitoring very carefully as to whether or not consumers are being mistreated at the pump -- in other words, gouged," Bush said from the White House.

It was unclear yesterday how badly the storm had crippled the Gulf oil infrastructure. Eileen Angelico, a spokeswoman for the Interior Department's Minerals Management Service, said flyovers Saturday and yesterday showed 10 destroyed oil platforms. There are 717 manned platforms in the Gulf, and as of yesterday 591 of them had been evacuated in anticipation of the storm.

Angelico said the assessment was preliminary and that there were no further details available. The agency was working with oil companies and the Coast Guard to confirm other reports of damage, she said.

Meanwhile, the nation's leading oil companies began returning crews to some of their facilities to assess structural damage. But already, the loss of power to many refineries and pipelines remained a top concern.

"To the extent that we hear that damage is minor, the larger issue is going to be power restoration," said Kevin M. Kolevar, assistant secretary of energy for electricity delivery and energy reliability.

Sen. Kay Bailey Hutchison (R-Tex.) said on CBS's "Face the Nation" that it could take up to nine days for the refineries to get back online and that Americans should expect possible gas shortages.

"We are looking at another week or eight or nine days before refineries are up and going, so refined gasoline is going to be in a shortage situation because of the power outages and flooding," she said.

As of yesterday afternoon, 99.6 percent of the oil production and 91.9 percent of the natural gas production in the Gulf was still shut down, according to the Interior Department. The Gulf of Mexico produces about 1.3 million barrels of oil and 7.4 billion cubic feet of gas per day. Personnel had been evacuated from 92 of the 121 rigs in the Gulf.

However, only four of 17 oil refineries on the Texas coast from Corpus Christi to Beaumont remained closed, six were ramping up and the rest were operational, Kolevar said.

Operators of two major pipelines that serve the Eastern Seaboard, the Plantation and Colonial pipelines, said they were able to resume operations yesterday carrying diesel, heating oil, jet fuel and gasoline from the Gulf Coast at reduced rates.

Exxon Mobil said power was restored to its Baytown facility and that a start-up plan was being developed. Its Beaumont facility remained without power. Bill Day, a spokesman for Valero Energy, the nation's largest refiner, said it would take several days for power to be restored to its Houston, Texas City and Port Arthur refineries. Shell said last night that two of its refineries had not resumed operations while two others were operating on a limited basis.

Nonetheless, assessment crews found no significant structural damage to the Valero facilities. Exxon Mobil said damage appeared to be limited at its Baytown complex. Shell, too, had only moderate damage to some of its facilities, including its Pasadena terminal, which it reopened. Its Houston terminal, however, did sustain some damage and was being assessed further, the company said.

washingtonpost.com

# Offshore Drilling Is Coming to a Vote



Democrats to Offer a Mix of Proposals

By Paul Kane
Washington Post Staff Writer
Sunday, September 14, 2008; A04

Congressional Democrats, balancing political reality against a policy they have long opposed, are on the cusp of approving legislation that would open the Atlantic and Pacific oceans to oil drilling as close as 50 miles offshore.

With votes scheduled this week in the House and Senate, Democrats have essentially given up defending the current ban on drilling within 200 miles offshore along both coasts. Instead, led by House Speaker Nancy Pelosi (D-Calif.), they are offering a mix of proposals that would allow drilling, with the waters off Massachusetts, Virginia and Georgia most likely to be the first affected.

Environmentalists and industry analysts disagree over the impact the various legislative proposals would have on oil production, with industry experts contending that the most precious reserves still would be off-limits. But both sides agree that -- because of the politics of $4-a-gallon gasoline this summer and a pending legislative deadline -- the nearly 40-year drilling ban is in jeopardy.

"It's in deep, deep trouble. I won't pronounce it dead, but it's in deep trouble," said Warner Chabot, a vice president of the Ocean Conservancy, an environmental group opposed to drilling.

House and Senate Democrats have been assembling different proposals for the past few weeks after absorbing months of Republican criticism as gas prices soared. Under pressure from moderate Democrats fearful of November election losses, Pelosi took the first formal step Wednesday by unveiling a proposal that would open the Atlantic and Pacific coasts to drilling at least 100 miles offshore. If governors and state legislatures agree, drilling off each state's coast would be allowed 50 miles from shore.

Pelosi had previously suggested opening only portions of the southeastern Atlantic coast and some of the eastern Gulf of Mexico to drilling, but ultimately offered to allow drilling off both coastlines. The eastern gulf off Florida's west coast would remain off-limits.

Under the Pelosi bill, scheduled for a vote Tuesday, the federal government would not share royalties with the states, devoting the money instead toward federal funding for renewable energy resources.

Taxes on oil companies would be increased, with that revenue also going to alternative energy sources.

A separate proposal, developed by about 20 Senate Democrats and Republicans, also would move the drilling boundary to 100 miles offshore, with states given the option to set it at 50 miles. But under that plan, new Atlantic drilling would be limited to Virginia, North Carolina, South Carolina and Georgia. The Senate plan would allow no drilling in the Pacific.

In a key difference with Pelosi's bill, the Senate legislation would allow new drilling off Florida's west coast.

Some industry experts question the effect of the proposals, citing federal studies that show that more than 80 percent 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.

"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.

With revenue sharing, Virginia and Georgia would quickly approve offshore drilling at the 50-mile mark, Kennedy and some environmental experts predicted. The biggest target for new drilling at the 100-mile mark would be in the Georges Bank, off the coasts of Massachusetts, Maine and New Hampshire, where cod fishing was once the dominant industry. Oil and natural gas already are extracted not far away, in Canadian waters.

The most sought-after area, however, is the eastern Gulf of Mexico near Florida's western coast. Drilling rigs already operate in the gulf off Houston, New Orleans and Mississippi, giving oil producers a near-certain guarantee of finding oil near Florida. It also would be less costly for producers to move their production and delivery systems to the other side of the gulf than to place new rigs in previously unexplored regions of the Atlantic or Pacific.

Sen. Bill Nelson (D-Fla.) has vowed to filibuster any legislation that would open the waters off Florida's western beach resorts, to protect his state's tourism industry and the military testing areas for Navy and Air Force bases in the region. "If they want to get something done, they have to deal with me," Nelson said in an interview Friday.

Republicans have been skeptical about Pelosi's proposal, because environmental groups such as the Sierra Club have endorsed it as "a chance for clean energy gains that would represent a giant step in solving our energy crisis."

Many lawmakers privately predict the energy legislation will stall in parliamentary gridlock, but Congress has its own statutory deadline to deal with by Sept. 30. At that point, the annual congressional moratorium on offshore drilling expires. President Bush lifted the executive ban on offshore drilling early this summer.

That means Pelosi has barely two weeks to forge a compromise or face the end of the moratorium. That would allow drilling within three miles off all coasts. Faced with such a predicament, Democrats are increasingly likely to add their new drilling legislation to a catchall spending bill that will fund most of the government into next year.

Such a decision would dare Bush to veto the legislation and shut down the federal government over the GOP's preferred drilling plan. But if Republicans accepted the compromise, it would lead to increased offshore oil drilling under the watch of a Democratic Congress, a concept that was unfathomable just six weeks ago.

September 15, 2008

OP-ED CONTRIBUTOR

# Save the Environment: Drill, Baby, Drill

By ROBERT HAHN and PETER PASSELL

THE audience's mantra at the Republican National Convention — "drill, baby, drill" — reflected deep frustration with Washington's decision to lock down tens of billions of barrels of oil under American territory in an era of $4-a-gallon gasoline. Whatever the merits of his argument, Barack Obama's response that "drilling is a stop-gap measure, not a long-term solution" won't make the sting go away as long as it costs $100 to fill the tank of a pickup truck.

The crux of the matter is how accelerated drilling would affect gas prices, now and in the long term. And the conclusions of our latest research aren't likely to please true believers on either side. We found that full-speed-ahead exploitation of the restricted oil reserves would lower prices at the pump by a few cents at most. Nonetheless, it's equally clear that the failure to develop these oil resources would cost the state and federal governments hundreds of billions of dollars in royalties and taxes. It would also, paradoxically, pass up an opportunity for a grand bipartisan bargain — going far beyond the deal to open up some coastal drilling that Congress is expected to vote on this week — that could preserve or restore huge swaths of wilderness that are a top priority of serious environmentalists.

Our projections are based on government estimates that some seven billion barrels of oil could be extracted from the Arctic National Wildlife Refuge and a whopping 11 billion barrels could be had from the restricted offshore sites. That translates into an extra million barrels a day in the year 2025 — one-sixth of the total projected domestic output.

A big deal, right? Not in the context of the current political debate. The markets in which oil prices are determined are global, not local, and the extra million barrels would represent less than 1 percent of total world consumption in 2025. Thus we estimate that the million daily barrels would lower the price of crude by just 1.3 percent, which few consumers would even detect against the background noise of the weekly ups and downs of fuel prices.

To many, that's the end of the story. Why open a fragile ecosystem to drilling if it wouldn't materially reduce Americans' fuel bills? A good answer requires a shift in perspective, from the current focus on gas prices to a more comprehensive economic framework for weighing the public and private benefits of drilling against the likely costs.

Assuming that crude will still be selling for $100 a barrel down the road, we estimate that the oil from two new sources would be worth close to $1.85 trillion. Add to that the extra benefit to consumers of paying slightly less for imported oil and economic gains from being less vulnerable to supply disruptions, and the total benefit exceeds $2.1 trillion.

On the other side of the ledger, the expected costs of developing all that oil, including cleaning up environmental damage, would amount to a bit less than $400 billion. So, at a first cut, the decision to drill seems an economic no-brainer.

Why, then, the controversy? Many environmentalists argue that this calculation leaves out the biggest cost of all: the loss of the intangible benefits Americans get from knowing that the Alaskan refuge and outer continental shelf have been left untouched. Indeed, economists spend a lot of time thinking about such "non-use values," if not much time agreeing on them. Still, our best attempt to get a fix on the non-use value of Arctic National Wildlife Refuge yields a figure of just $11 billion. In sum, this leaves about $1.7 trillion in tangible net benefits, so most people, one would guess, would still find the case for drilling to be compelling.

Some people, however, attach a much, much higher non-use value to the Arctic refuge, and their opinions count a lot because they are well represented in Congress. So here's a question for them: If a big chunk of that $1.7 trillion could be spent on preserving wilderness that didn't happen to sit astride vast quantities of oil, would you really choose to spend it on keeping human hands off the currently protected sites?

One could imagine a political bargain in which several hundred billion dollars went into a fund with a charter to preserve wilderness in the United States, or climate-stabilizing rainforests in Africa and Latin America. As little as $100 billion would go a long way: the projected cost of preserving the entire Everglades against the encroachments of the Florida economy is $11 billion, while a comprehensive restoration of 200,000 acres of Louisiana's coastal wetlands would run to $18 billion.

For better or worse, "drill, baby, drill" is now widely viewed as the cure for what ails. Giving the public what it wants wouldn't lower gas prices by any meaningful amount. But it would create an opportunity to move public opinion (and huge sums of cash) in the direction of good environmentalism and good economics.

*Robert Hahn is the director of the Reg-Markets Center at the American Enterprise Institute. Peter Passell is a senior fellow at the Milken Institute.*

ROLL CALL



# Energy: Deal or Dry Hole?

September 15, 2008
*By Steven T. Dennis and Emily Pierce*
*Roll Call Staff*

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The biggest question remaining this Congress is whether Speaker Nancy Pelosi (D-Calif.) and Senate Majority Leader Harry Reid (D-Nev.) really want to cut a deal with the White House before the elections to allow more offshore oil drilling — or whether they are going through an elaborate exercise to give their Members a heaping dose of political cover.

Pelosi caught Republicans by surprise with her stunning turnaround on drilling last week, moving from decades of fierce opposition and months of blocking any votes to offering up legislation that would allow offshore drilling nationwide.

But Republicans remain suspicious and believe she has no interest in cutting a deal.

They note her package includes no revenue sharing for states that choose to allow drilling, which they consider a poison pill. Nor is there any provision for drilling closer than 50 miles, which puts off limits most of the oil reserves on the West Coast, where the Outer Continental Shelf is narrow. They deride her proposal to tie the oil package to a renewable electricity mandate, charging it would raise utility bills. And they also say that if she was prepared to craft a grand compromise to become law in the two weeks before Congress goes home, she would have picked up the phone and called a Republican or two to lay the groundwork.

House Minority Leader John Boehner (R-Ohio) said that he was “somewhat pleased” that Democrats appear to be “coming our way” but that the bill as outlined by Pelosi “looks like a hoax” because it doesn’t provide incentives to states.

“I’m not sure there’s any real intention to get a bill that could be signed into the law,” Minority Whip Roy Blunt (R-Mo.) said.

Blunt said secondhand sources have told him that Democratic leaders are reassuring their Members not to worry about new drilling ever taking place.

According to his sources, top Democrats are telling their Members, “Look, this is never going to happen, so it’s better than a moratorium,” Blunt said. “It looks like we’re allowing something that we’re not allowing.”

For her part, Pelosi explained her evolution on the issue as trying to stave off the expiration of the offshore drilling ban on Sept. 30. The choice, she said, is not between having the ban or not, “it is a question of what the president will sign” before the ban expires.

Democrats say there is still time to cut a deal — if Republicans are interested in policy solutions, not just having an issue to take into the election.

Democrats acknowledged last week that they simply do not have the votes to pass a stopgap spending bill extending the drilling ban past the election, and so they have an incentive to cut a deal to so the ban does not disappear.

If it goes away, drilling would be allowed as close as three miles to most states, Pelosi said.

“We have to face the reality that if we don't have something in the bill, it is drilling three miles offshore,” she said. “Many Republicans are not for that. So we think we can get bipartisan support.”

However, some Democrats have noted that an expiration of the ban would not be the end of the world. It would take years before new drilling could go through the permitting and leasing process — plenty of time to craft a drilling plan in a lame-duck session or next year, when Democrats hope to have larger majorities and the presidency — and before any drilling actually would occur.

The best chance for a bipartisan drilling deal lies in the Senate, where a “Gang of 10” — swollen to 20 Senators by the end of last week — is trying to grind out a deal.

If the Senate can reach a grand compromise, the House could go along and Republicans and President Bush would face a difficult decision of blocking a bill that has some, but not all, of what they want.

Despite the tight time frame, Senate Democrats insist they have enough time to pass renewable energy tax credits and a comprehensive bill including drilling and conservation.

“I think that the work we’re doing on renewables is something that will become law,” Reid said Friday. “It appears to me that there’s going to be some things actually accomplished, rather than just going through a routine exercise here legislatively.”

Reid, however, said he plans to bring up the tax extenders bill first, before moving on to a broader energy debate in which he envisions the Senate voting on three proposals to expand offshore drilling: a Democratic plan, a Republican plan and a bipartisan bill proposed by the gang.

Sens. Kent Conrad (D-N.D.) and Saxby Chambliss (R-Ga.), who head the Gang of 10, said they are optimistic about their bill’s chances, but they warned that any deal faces stiff opposition from both sides.

Chambliss said he was not sure whether the combination of opposition from Republicans and Democrats would amount to filibuster strength.

“There is still a large contingency of folks on both sides of the aisle that want to do nothing, and I just think that’s a huge mistake,” Chambliss said.

Conrad agreed, saying the House Democrats’ decision to support more offshore drilling could be the key to producing a compromise within the next two weeks. “There’s a commonality of opening up offshore [drilling]. There’s a commonality of extending wind and solar tax credits by more than a year. ... It’s almost a consensus that we ought to take back the manufacturers’ tax credit that the oil industry got that was never intended to apply to them,” Conrad said. “Those things were anathema before, but now they’re a common element in the plans.”

But Republicans — even Chambliss — remain skeptical of the Democratic leadership’s commitment and ability to complete a comprehensive bill before adjourning Sept. 26 as planned.

“It’s really important to examine what’s underneath all of this,” Senate Minority Whip Jon Kyl (R-Ariz.) said. “Is this just an opportunity for Members to have a cover vote? To vote for something so they can say they did, knowing that it will never become law? Or is it a real exercise?”

Kyl added, “I don’t yet see a willingness on the part of the majority, if you look for example at what the House Democrats have now come out with, to confront the issue of drilling in a meaningful, substantive way.”

Chambliss said he doubted that Congress has enough time before the end of the month to forge a deal that could pass both chambers and be signed by the president.

“The chances of that being done before the election — that’s probably not going to happen. That’s not realistic,” Chambliss said. “I think this conference would be extremely delicate, complicated, and take time.”

**Jennifer Bendery contributed to this report.**

The New York Times
nytimes.com



**September 15, 2008**

# As Oil and Gas Prices Rise, Wood Stoves Gain Converts

By KEN BELSON

JEFFERSON VALLEY, N.Y. — Fire Glow Distributors Inc., a store in this hamlet in the Westchester County suburb of Yorktown Heights, has pellet stoves on back order. Tree trimmers for the utility company in Orange and Rockland Counties, used to scavengers in pickup trucks, have spotted Mercedes-Benzes trailing their crews to load logs into their (carefully lined) trunks.

And in Spring Valley, a village in Rockland County, landscapers like John Wickes are being pestered for the scrap branches they had to pay to dump just a few months ago.

“There are wood wars,” said Mr. Wickes, a third-generation co-owner of Ira Wickes, a family arborist business founded in 1929. “People are desperate to look for ways to heat their homes cheaply.”

After a summer of high oil and gas prices, suburb dwellers around New York, and across the country, are going low-tech in hopes of reducing their energy bills this winter.

Shipments of pellet stoves, which can be inserted into a fireplace, more than tripled in the first half of 2008 compared with the same period in 2007, according to the Hearth, Patio and Barbecue Association; deliveries of wood stoves have jumped 54 percent. In the New York suburbs, the going rate for a cord of wood is $225, up from $175 last year, and the price of pellets, usually made from compressed sawdust, which has been scarce because of a slowdown in homebuilding, is also up (some people also burn shelled corn, peanuts, cotton and even cherry or olive pits).

Homeowners, not just in rural areas but also in the suburbs, are scrounging for wood, getting permits to cut in parks, hitting up tree-cutting crews and striking deals with neighbors.

Wood and wood-burning heating stoves go through spasms of popularity whenever oil and gas prices shoot up, most recently in 2005 after Hurricane Katrina. But this year’s run-up in prices was so rapid and sustained that people started planning for the coming winter not long after last winter’s snow melted.

“Sales never slowed down in May, June and July in the Northeast,” said Alan Trusler, the vice president of sales at Hearth and Home Technologies, which has doubled production of wood and pellet stoves at its factories in Pennsylvania and Washington State. “It’s really fueled by economics.”

Residential heating oil prices during the coming season, October to March, are projected to average $4.13 per gallon, an increase of about 25 percent over last heating season, according to a forecast published on Tuesday by the federal Energy Information Administration. Residential natural gas prices over the same period are projected to average $14.93 per thousand cubic feet, compared with $12.72 during the last heating season, an increase of about 17 percent.

Angelo and Anna Cioffi of Pleasantville, N.Y., about an hour's drive north of Manhattan, started looking for a pellet stove in March, when fuel prices were beginning their surge. The Cioffis said their oil company offered to cap their fuel prices at $4.75 a gallon for a $200 up-front fee. If they did not ante up, the Cioffis said they were told, they could pay up to $5.25 — nearly twice the $2.79 a gallon they paid last year.

So the Cioffis went to Fire Glow Distributors, whose Web site declares, "Act now and be prepared for the next heating season!" and found a Quadra-Fire pellet stove on sale. But they held off buying until June. By then, the store was sold out, so the stove will not be delivered until October at the earliest.

Mr. Cioffi, who runs a handyman business called A C HomePro and plans to install the stove himself, said he expected to recoup its $3,000 cost in five years. This winter, he figures to spend about $600 for two tons of pellets, which come in 40-pound bags for $4 to $6. He will also pay whatever it costs to run the stove's two electric fans to blow heat from the fireplace into his ranch house.

According to an online calculator at the Web site for the Pellet Fuels Institute, www.pelletheat.org/3/residential/compareFuel.cfm, pellets provide twice as much heat per dollar as oil.

"I hope to reduce my heating costs by half and not live like an Eskimo," said Mr. Cioffi, who is installing a more efficient water heater, too. "We just can't keep sending our money overseas" to oil-producing nations, he said.

Mr. Cioffi is not alone in casting wood burning in patriotic terms. A cardboard sign for Dry Creek, a pellet maker, is posted in the Fire Glow store with an Uncle Sam character imploring shoppers to "start your own energy policy." One bag of pellets, the sign says, equals "approximately 2.5 gallons of oil."

Gail Meeker, the owner of the store, said some of her customers "don't want to pay the Arabs money."

Politics aside, Ms. Meeker has neither pellet stoves nor pellets in stock because so many customers bought stoves in the normally slow summer season instead of waiting for the thermometer to dip.

Pellet stoves are very popular with new converts to wood heat because they are cleaner and easier to maintain than traditional wood stoves and include conveniences like timers and thermostats. Wood stoves take longer to heat up than pellet stoves, and their smoke emissions can sometimes violate local ordinances.

But with so few pellet stoves in stock, many homeowners are now looking at wood stoves, which can cost a few hundred dollars less than a comparable pellet stove but take a lot more work. Owners have to find, chop and handle a lot of wood, and clean up the ashes the stoves create.

With demand driving up prices for precut cords of wood (technically 4 feet high and wide by 8 feet long), many stove owners are taking to their neighborhood streets in search of free fuel. In the Hudson Valley, crews working for Orange and Rockland, the local utility, which removes about 20,000 cubic yards of wood and branches each year, have noticed a growing number of foragers following their trucks in hopes of a bounty.

"One gentleman had a bed liner in the trunk of his Mercedes when he pulled up," said John Cerullo, whose company, National Field Service Corporation, does trims trees for the utility. Having recovered some logs, Mr. Cerullo said, “he was smiling ear to ear.”

Some towns try to prevent roadside scrounging by setting up wood-recycling depots. In Yorktown Heights, landscapers can dump their waste wood at a public works center. The town turns some of the wood into mulch, which residents grab to use in their gardens. They can also take as many of the remaining logs as they like, and lately, they have been disappearing faster and faster.

Roger and Mary Muller, a retired couple who have lived in Yorktown Heights since 1972, stop by every couple of weeks for wood to fuel their stove. On a recent sunny afternoon, with the temperatures in the low 80s, Mr. Muller, 70, wielded a 14-inch chain saw to turn several logs into 25 or so manageable wood chunks. In turn, Mrs. Muller, 66, in a short-sleeved shirt and thick gloves, loaded them into the back of their red Chevy TrailBlazer.

“Gas is $340 a month,” she said. “So we have a room that we close off. The wood stove keeps it nice and toasty for us.”

The New York Times
nytimes.com



September 15, 2008

# On the Web, Drillers Want Their Say, and Call It News

By OHN METCALFE

The "shale beat" sounds more like a punishment handed down by a wrathful editor than something a reporter would rush to cover.

Yet a group of seasoned journalists is doing just that for Shale.TV, an Internet video site devoted to a roughly 330 million-year-old rock formation lying under northern Texas.

Known as the Barnett Shale, the rock slab has proven rich in natural gas, and the Dallas/Fort Worth region has become a drilling hotbed for a menagerie of energy companies. Shale.TV, which starts in early October, will explore issues like land-leasing rights, drilling legislation and public meetings of concerned citizens. Shale.TV is financed by the Chesapeake Energy Corporation of Oklahoma City, which also owns a huge stake in the Barnett Shale.

The Barnett Shale is a hot topic in parts of Texas. The gas boom has enriched those who allow drilling rigs on their property but has also led to complaints about gas-compressor noise, truck traffic and, for some, a lingering fear of billowing fireballs.

Drilling towers spike the urban landscape, standing in backyards, in downtown areas, next to parks, and behind a 7-Eleven. In Johnson County, one of the areas where Chesapeake is most active, the number of gas wells has grown from three in 2002 to 861 in 2007, according to the Texas Railroad Commission. "There are real serious issues about drilling in urban environments," said Olive Talley, a George Polk Award winner who produced for NBC and ABC before joining Shale.TV as executive editor.

But the fact that Chesapeake owns a big share of Shale.TV and that the Web site has its headquarters in one of Chesapeake's Fort Worth properties has stirred suspicion among some locals.

"The purpose, in my opinion, is to prepare people for the problems that are coming," said Don Young, a glass artist who founded the group Fort Worth Citizens Against Neighborhood Drilling Ordinance.

Julie Wilson, Chesapeake's vice president for corporate development, said that Shale.TV reporters will have free rein to cover the industry, warts and all. "We expect nothing less than for them to be objective," she said.

Chesapeake created Shale.TV after earlier public relations efforts elicited what Ms. Wilson called "natural skepticism." So this year, the energy company turned to Branded News, a subsidiary of the Oklahoma City advertising agency Ackerman McQueen that specializes in creating informational video Web sites.

Mr. Young, the gas-drilling opponent, said he did not plan to watch Shale.TV; he has been encouraging friends not to watch it, and he plans to move out of town in a year. JOHN METCALFE

**September 14, 2008**

# Tapping Power From Trash

**By JOHN RATHER**

WHEN talk turns to alternative energy and global warming, let us not forget stinking piles of garbage.

Buried in airless pockets deep inside landfills, the organic matter in these great mounds of waste is consumed by bacteria that give off gas rich in methane, increasingly used to generate electricity and heat.

In fact, power from landfill methane exceeds solar power in New York and New Jersey, and landfill methane in those states and in Connecticut powers generators that produce a total of 169 megawatts of electricity — almost as much as a small conventional generating station. The methane also provides 16.7 million cubic feet of gas daily for heating and other direct uses.

There is ample opportunity for energy-producing projects at more landfills, according to the Environmental Protection Agency's Landfill Methane Outreach Program and officials and groups in the three states. As scouring for alternative energy intensifies, landfill methane is getting more attention from state, federal and local governments together with private energy and waste-management companies, landfill owners and energy entrepreneurs.

If it is not captured, the E.P.A. says, landfill methane becomes a greenhouse gas at least 20 times more potent than carbon dioxide, the principal greenhouse gas, when it rises into the atmosphere. The agency estimates that landfills account for 25 percent of all methane releases linked to human activity.

As a result, capturing methane at former and active landfills is a global housekeeping benefit as well as an important alternative energy niche.

In New York, power from landfill methane far exceeds solar power and is led by the 72-megawatt capacity of Covanta's American Ref-Fuel incinerator in Hempstead, the largest Long Island plant making energy from refuse burning. In New Jersey, power from landfill methane surpasses both solar and wind power.

The Environmental Protection Agency lists more than 51 operating landfill methane projects in the three states, 7 under construction and 23 shut down. It lists opportunities at more than 90 other sites, most in New York and several on Long Island.

Landfill methane powers generators that produce 83 megawatts of electricity in New Jersey, 80 in New York and 6.1 in Connecticut, and more landfill energy could be on the way. Waste Management, the largest garbage hauler and landfill operator in the country, is in the midst of a five-year, $400 million plan to build methane-to-electricity projects at 60 landfills nationwide. It already has a project at the landfill in New Milford, Conn.

At some landfills, methane is not harnessed but is burned off, or flared, keeping it from the atmosphere but wasting its energy potential. That is changing.

"As the price of energy has increased, there is more interest in getting some energy production out of these landfills as opposed to simply flaring," said Janet Joseph, director of clean energy research and market development for the New York State Energy Research and Development Authority.

Ms. Joseph and others acknowledge that energy production from landfill methane, while desirable, will go only a short way toward meeting overall energy needs.

Still, available and anticipated incentives — including renewable energy credits, tax breaks and carbon offsets, linked with market forces and a regional initiative to reduce greenhouse gas emissions — are increasing interest in methane capture and use.

In New Jersey, more than half of captured landfill methane is now used. The state's largest project, at the 600-acre Ocean County landfill in Manchester, generates 20 megawatts, the E.P.A. said. Projects are in operation at more than 20 New Jersey landfills, under construction at 3 and possible at 8 others, E.P.A. data show.

On Long Island, the Wehran Energy Corporation project at the 8.1-million-ton Brookhaven Town landfill, which closed to garbage in 1996, has pumped 350,000 megawatt-hours of electricity into the power grid over the past 30 years. Wehran's president, Fred L. Wehran Jr., said the Long Island Power Authority pays 8.5 cents per kilowatt-hour for power the company delivers to its grid.

With gas from the closed landfill declining, Mr. Wehran said he was seeking ways to make power from the lower-methane gas coming from Brookhaven's adjacent and still operating landfill for construction and demolition debris. "I'd like to use every cubic foot of gas," he said, "because once it's gone it's gone."

In Connecticut, the Connecticut Clean Energy Fund, a state-created promoter of renewable energy that is financed through utility rates, calls methane's fuel potential untapped at many landfills, but there has been some activity. A project at the 837,000-ton East Windsor landfill in Broad Brook that began last year is producing 3.2 megawatts of power, the E.P.A. said. An older project at the 2.2-million-ton Hartford landfill produces 2.9 megawatts, the figures show.

The E.P.A. outreach program said landfills that were likely candidates for methane capture could add 27.3 megawatts in New York, 3.1 megawatts in New Jersey — where most landfills are already exploiting methane — and 7.3 megawatts in Connecticut. New York's figure is far below the 300 to 600 megawatts the state expects from upstate wind turbine projects.

Some plans for landfill methane use have fallen short of the goal. Proposals for the Croton Point landfill in Westchester County, at 108.4 million tons one of the largest in the metropolitan area, ended without a project.

"We thought about a lot of things, but basically nothing happened, because there was no payback to cover the initial costs," said Susan Tolchin, an adviser to the county executive, Andrew J. Spano. The landfill is now a park.

On Long Island, an attempt to generate electricity using landfill methane at the Babylon Town landfill in the late 1980s fizzled for lack of methane, the town said. Victoria A. Russell, the town's commissioner of environmental control, said large amounts of construction and demolition debris in the landfill made it a poor methane source.

EXPERTS said methane production depends on the type of garbage — organic-laden municipal solid waste is the best producer — how old and how tightly bundled it is, the quantity and, especially, weather conditions. Landfills in dry, hot climates produce less; those in steamy, rainy places do best because moisture hastens the decomposition that produces methane.

Landfill gas is about 50 percent methane and 50 percent carbon dioxide. Trace ingredients include hydrogen sulfide, which has a noxious odor. Collection systems and flaring largely eliminates odors from these ingredients, another benefit. Methane itself is odorless.

Margaret F. Brennan, the associate director of the New Jersey Agricultural Experiment Station at Rutgers in New Brunswick, said in a 2007 report that 5.5 million tons of the 8.2 million tons of biomass the state produces each year could be used to generate up to 1,124 megawatts of power, or more than 9 percent of the state's electric demand.

"New Jersey really has an opportunity here to lead the way in alternative energy from waste," she said. "It's truly a trash-to-treasure story."

THE WALL STREET JOURNAL. ONLINE

**September 15, 2008**

# U.S. Auto Makers Target Battery Gap With Japan

By JOHN MURPHY
*September 15, 2008; Page B1*



The lengthening lead Japan's auto makers hold in securing supplies of advanced batteries to power the next generation of automobiles has become a rallying point for the U.S. auto industry in seeking at least $25 billion in government loans.

Over the past decade, Japan's auto giants have been teaming up with its electronics companies, which have dominated global battery manufacturing for laptop computers, mobile phones and other products. Most Japanese battery makers -- even those allied with Japanese auto makers -- say they are willing to supply other car makers.

But securing an adequate supply of batteries over the next few years has become a growing concern for auto makers everywhere. The U.S. industry is leery of depending too heavily on foreign battery makers allied with Japanese auto makers, for fear those suppliers would give priority to filling the orders of their Japanese partners.

Over the past several months, a number of Japan's auto makers and its top battery makers have reached new agreements to work together on vehicle batteries. At least five battery factories are under construction in Japan, including a $115 million facility announced in May by **Nissan Motor** Co. and electronics giant **NEC** Corp.

The flurry of deals promises to put U.S. auto makers even further behind their Japanese rivals in manufacturing capacity and technological know-how on the battery front, analysts say.

On Friday, U.S. auto-industry leaders pressed American lawmakers for federal loans to develop homegrown technology for more fuel-efficient vehicles, such as hybrids, plug-in hybrids and electric vehicles.

**General Motors** Corp. Chairman and Chief Executive Rick Wagoner, appearing on Capitol Hill, called on Congress to support advanced-battery development in the U.S., which he said lags far behind the government-supported development efforts in Japan and South Korea.

The market for advanced automotive batteries is expected to grow to between $30 billion and $40 billion a year by 2020, compared with today's $900 million market for hybrid batteries, according to Deutsche Bank Securities Inc.

Detroit executives say that by helping to narrow the battery-development gap, a federal-loan package would further the goal of U.S. energy security in addition to aiding the country's auto industry. The executives argue that failure to develop a competitive battery industry domestically could create a new energy dependency for the U.S. by making it reliant on foreign-made batteries, even as it seeks to reduce its dependence on imported oil.

"Moving from imported oil to imported batteries" wouldn't address the nation's energy-security concerns, said Mark Fields, head of **Ford Motor** Co. operations in the Americas, speaking recently in Washington. "Bold and dramatic incentives are needed to accelerate the commercial development of high-energy power batteries right here in the U.S."

Higher oil prices have pushed consumers to hybrids at a much faster pace than almost anyone had imagined, accelerating car makers' need for access to good batteries. Even **Toyota Motor** Corp., which has the largest supply, encountered a shortage this year of the batteries used to power the electric motor in its popular Prius gasoline-electric hybrid. As a result, it was forced to put some customers on three-month-long waiting lists for the Prius.

For now, some U.S. auto makers are seeking supplies from Japanese battery makers. GM recently announced plans to buy lithium-ion batteries for 100,000 hybrids from Japan's **Hitachi** Ltd. **Sanyo Electric** Co. supplies batteries for Ford hybrids.

But Japanese companies continue to invest in their own facilities. Nissan and partner NEC announced in May that they will build a factory that has capacity to make 65,000 lithium-ion batteries a year by 2011, as the car maker aims to become the world's largest producer of electric vehicles.

In July, Toyota opened a battery-research center, which it plans to double in size in the next two years to include 100 scientists and support staff, to develop a supercharged battery more powerful than those now on the market. A slew of smaller companies are ramping up production of cathodes, electrodes and other essential battery-making materials.

Unlike the U.S., Japan has made energy savings a top priority for years. While Detroit has focused on highly profitable large trucks and sport-utility vehicles in recent years, Japanese auto makers have continued to concentrate on smaller, fuel-sipping vehicles, including hybrids

Toyota and **Matsushita Electric Industrial** Co. formed a joint venture in 1996 called Panasonic EV Energy to produce batteries for Toyota hybrids. With two plants running and a third under construction, the venture aims to produce enough nickel-metal-hydride batteries to power one million hybrid vehicles a year soon after 2010, more than double its plans for this year.

In addition, the company plans to start making lithium-ion batteries, a more-powerful kind of battery that will be used in Toyota's plug-in hybrids scheduled for release late next year.

Panasonic EV Energy runs what is currently Japan's most-advanced battery-making facility. Rising above the rice fields and rows of greenhouses in the farming town of Kosai in central Japan, the factory operates around the clock.

Japan's GS Yuasa, a Kyoto battery maker that has teamed up with **Mitsubishi Motors** Corp. and **Mitsubishi** Corp. to make lithium-ion batteries, has been honing its battery-making expertise for two decades, creating batteries for a wide range of uses, including satellites, submarines and power tools.

The company's production facility is a warren of sealed, air-tight rooms. Employees wear face masks, and the floors are lined with sticky mats to collect dust and other particles that could ruin a battery's performance. "Mass production of batteries is very difficult," says Ken Sawai, a manager at GS Yuasa. "There are many secrets."

And there is ample opportunity for developers of better batteries. "Whoever can make a safe, long-life and low-cost battery will be the winner," says Khalil Amine, a battery researcher at the U.S. Department of Energy's Argonne National Laboratory.

Those trying to do that include start-ups like A123 Systems Inc., a small company founded by a group of scientists from the Massachusetts Institute of Technology. A123 is a contender for the battery design that will power GM's planned Chevrolet Volt.

Another battery player in the U.S. is **Johnson Controls** Inc., which last month was awarded an $8.2 million contract by the U.S. Department of Energy to develop lithium-ion batteries for plug-in hybrid vehicles. The company also will provide lithium-ion batteries for the Mercedes-Benz S-Class hybrid vehicle, scheduled to be on the market in early 2009.

But much more needs to be done, says Mary Ann Wright, vice president and general manager for Johnson Controls' hybrid-battery business. She has been lobbying Washington for a national effort to establish research labs and manufacturing technology to make the U.S. a battery-manufacturing leader.

It would be more of rebirth of an industry than one started from scratch. Key components needed in hybrid and electric vehicles -- including the battery, electric motor and specialized electronics -- were originally developed in the U.S., Ms. Wright says. Now nearly all of them come from Asia.

"It's our punishment for inventing this stuff and allowing manufacturing to go somewhere else," she says.

**--Joseph White, Akane Ichikawa, Miho Inada and Corey Boles contributed to this article.**

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THE WALL STREET JOURNAL. ONLINE

September 13, 2008

# California's Tighter Green-Energy Plan Advances

### Boards Seek Big Rise In Renewable Power Over Next 12 Years

By REBECCA SMITH
*September 13, 2008; Page A2*



California's two energy agencies Friday endorsed a plan that would require utilities to obtain a third of their electricity from renewable sources by 2020.

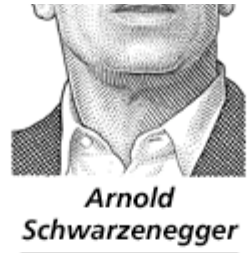
The California Energy Commission, a policy-and-planning agency, and the California Public Utilities Commission, which regulates utilities, issued the joint recommendation that, if implemented, would be the most ambitious renewable-energy plan in the U.S.

Getty Images
A view of wind turbines at the Kumeyaay Wind Project on the Campo Reservation outside of San Diego.

But the target raises questions about how much the goal could cost consumers. The plan's price tag is "the question of the hour," says Jackalyne Pfannenstiel, an economist who chairs the California Energy Commission. She endorses the goal but said it could be modified because of cost hurdles or other barriers. She believes, however, that the cost of renewable energy will eventually fall.

In a joint recommendation to the California Air Resources Board, the lead agency on climate-change matters, the energy commission and the public-utilities commission said the 33% goal is needed for California to reduce greenhouse-gas emission 29% by 2020 -- the key provision of the landmark environmental law signed by Gov. Arnold Schwarzenegger in 2006.

Already, the state appears likely to miss its current target of garnering 20% of its electricity from renewable resources by 2010. As electricity consumption has increased, the portion of renewable energy California consumes has actually been dropping, from 14% in 2003 to 12.7% last year.




The proposed policy faces votes by several regulatory bodies and could be implemented either through a state law or an executive order by Gov. Schwarzenegger.

Setting such an ambitious target is risky. It could compel state regulators to approve numerous renewable-energy development projects which later turn out not to be feasible or economically viable. That could raise electricity prices and limit supply down the road.

So far, the utilities commission has approved all the renewable-energy contracts that have come before it. Even so, fewer than 500 of the 6,000 megawatts of renewable generating capacity that is under contract to utilities are in operation.

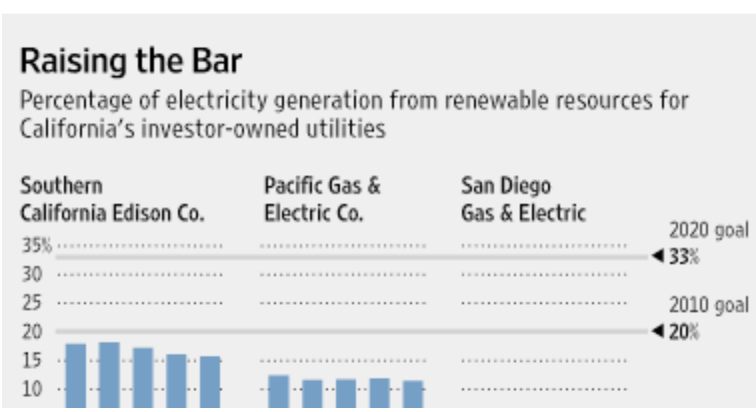
Developers face big obstacles as they try to expand the state's wind, solar and geothermal power. Many of the biggest projects currently planned are in mountain and desert locations. They face rising construction costs, local opposition and complicated regulatory reviews. In addition, some of these proposed projects still lack the infrastructure to transmit the electricity from generators to users.

"The biggest barrier to meeting the state goal is getting transmission access," said Amber Mahone at Energy and Environmental Economics, a San Francisco research firm hired by the utilities commission to estimate the potential impact of the new renewables goal.

The recommendation also supports creation of a cap-and-trade system among Western states to limit greenhouse-gas emissions by the power sector and other polluters. That is also expected to be a difficult policy to implement.

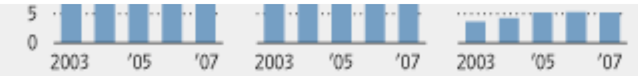
In a preliminary analysis of the greenhouse-gas-reduction program released this spring, Energy and Environmental Economics said a 33% renewable goal could push average electricity prices to about 17 cents per kilowatt hour in California by 2020, a 30% increase over the current average cost of about 13 cents.

It is impossible to know for sure. There is no public disclosure of the costs. The renewable-energy contracts between utilities and the public-utilities commission, which number about 90 so far, aren't public documents.




Consultants hired by the utilities commission to analyze costs say they will rely on their own estimates because they don't want to work from confidential data that others can't verify.

The public-utilities commission uses an "avoided cost" method to determine whether renewable



Source: California Public Utilities Commission

projects will generate power at reasonable prices. So long as a renewable-energy contract offers electricity at no more than what it would cost to get electricity from a newly built gas-fired power plant, a contract is deemed reasonably priced. Currently, the benchmark price is about 10 cents a kilowatt hour, not including energy-delivery costs. Since gas-fired electricity costs have risen sharply with higher fuel costs, that set price has increased.

But there are indications that some of the newly planned projects may have difficulty generating power at previously approved prices. Recently, generators have been asking for exceptions that would allow them to be compensated at prices even higher than the benchmark set by the commission. Fifteen contracts have been approved at prices above the commission's initial benchmark and nine more are pending.

Other developers that have received contract approval now want to renegotiate with the state because their costs are rising. The utilities commission has approval to spend as much as $750 million extra on new or renegotiated contracts. A staff member at the commission said she expects the sum will be reached "pretty quickly."

Other variables could also hamper California's goal. One immediate threat is the expiration of federal tax credits for wind and solar projects that are keeping many projects afloat. Expensive upgrades to the electricity-transmission grid also are needed to open up development areas, such as the Tehachipi Mountains that divide Northern California from Southern California. Nearly $2 billion in transmission upgrades are needed there for 1,500 megawatts of wind development. So far, only three of 11 segments of a transmission upgrade have garnered necessary approvals.

**PG&E** Corp.'s Pacific Gas and Electric Co. and Southern California Edison, owned by **Edison International**, support a higher goal but say there needs to be flexibility. **Sempra Energy**'s San Diego Gas & Electric Co., with the least renewable energy under contract, opposes a 33% target unless changes are made. The utility would like to be able to sign deals with out-of-state producers, for instance. "We support renewables," says Bill Ichord, SDG&E's vice president of regulatory affairs, "but it needs to be done in a rational way."

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THE WALL STREET JOURNAL. ONLINE

September 15, 2008

ENERGY

*Consumers*

# Why the Gasoline Engine Isn't Going Away Any Time Soon

**Blame it on technology, cost -- and the American way of life**

**By JOSEPH B. WHITE**
***September 15, 2008; Page R1***



An automotive revolution is coming -- but it's traveling in the slow lane.

High oil prices have accomplished what years of pleas from environmentalists and energy-security hawks could not: forcing the world's major auto makers to refocus their engineers and their capital on devising mass-market alternatives to century-old petroleum-fueled engine technology.

With all the glitzy ads, media chatter and Internet buzz about plug-in hybrids that draw power from the electric grid or cars fueled with hydrogen, it's easy to get lulled into thinking that gasoline stations soon will be as rare as drive-in theaters. The idea that auto makers can quickly execute a revolutionary transition from oil to electricity is now a touchstone for both major presidential candidates.

That's the dream. Now the reality: This revolution will take years to pull off -- and that's assuming it isn't derailed by a return to cheap oil. Anyone who goes to sleep today and wakes up in five years will find that most cars for sale in the U.S. will still run on regular gas -- with a few more than today taking diesel fuel. That will likely be the case even if the latter-day Rip Van Winkle sleeps until 2020.

**THE JOURNAL REPORT**

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• See the complete Energy[2] report.

**Free to Drive**

Cars aren't iPods or washing machines. They are both highly complex machines and the enablers of a way of life that for many is synonymous with freedom and opportunity -- not just in the U.S., but increasingly in rising nations such as China, India and Russia.

Engineering and tooling to produce a new vehicle takes three to five years -- and that's without adding the challenge of major new technology. Most car buyers won't accept "beta" technology in the vehicles they and their families depend on every day. Many senior industry executives --

including those at Japanese companies -- have vivid memories of the backlash against the quality problems that resulted when Detroit rushed smaller cars and new engines into the market after the gas-price shocks of the 1970s. The lesson learned: Technological change is best done incrementally.

**Integral to Modern Life**

Technological inertia isn't the only issue. Cars powerful enough and large enough to serve multiple functions are integral to modern life, particularly in suburban and rural areas not well served by mass transit.

Ditching the internal-combustion engine could mean ditching the way of life that goes with it, and returning to an era in which more travel revolves around train and bus schedules, and more people live in smaller homes in dense urban neighborhoods.

Economic and cultural forces -- high gas prices and empty-nest baby boomers bored with the suburbs -- are encouraging some Americans to return to city life, but by no means all. In rising economies such as China, meanwhile, consumers are ravenous for the mobility and freedom that owning a car provides.

**CAR MAKERS AND ALTERNATIVE FUEL**


Corbis

- A Peek at GM's New Battery-Powered Volt
- Mitsubishi's President on Electric-Car Plans
- A Tiny Solution to High Gas Prices
- Honda CEO on Hydrogen-Car Plans
- Test Driving the iMiEV Electric Microcar
- Mazda's Hydrogen Hybrid Unites Green Technology
- Japanese Car Runs on Water

**Desire Isn't Enough**

That doesn't mean auto makers and their technology suppliers aren't serious about rethinking the status quo. But displacing internal-combustion engines fueled by petroleum won't be easy and it won't be cheap.

It also may not make sense. Over the past two decades, car makers have at times declared the dawn of the age of ethanol power, hydrogen power and electric power -- only to wind up back where they started: confronting the internal-combustion engine's remarkable combination of low cost, durability and power. One effect of higher oil prices is that car makers now have strong incentives to significantly improve the technology they already know.

"There are a lot of improvements coming to the internal-combustion engine," says John German, manager for environmental and energy analysis at **Honda Motor** Co.'s U.S. unit.

Refinements to current gasoline motors, driven by advances in electronic controls, could result in motors that are a third to half the size and weight of current engines, allowing for lighter, more-efficient vehicles with comparable power. That, Mr. German says, "will make it harder for alternative technologies to succeed."

**THE ROAD AHEAD**

3

Gasoline has powered the vast majority

By 2020, many mainstream cars could be labeled "hybrids." But most of these hybrids will run virtually all the time on conventional fuels. The "hybrid" technology will be a relatively low-cost "micro hybrid" system that shuts the car off automatically at a stop light, and then restarts it and gives it a mild boost to accelerate.

of the world's automobiles for the past century. But now amid rising oil prices and increasing concern about tailpipe emissions and global warming, new types of propulsion technologies are starting to emerge. **Here's an overview**[4] of what's here now, and what's ahead. (**Adobe Acrobat**[5] is required)

**Cheaper Than Water**

Gasoline and diesel are the world's dominant motor-vehicle fuels for good reasons. They are easily transported and easily stored. They deliver more power per gallon than ethanol or other biofuels. And until recently petroleum fuels were a bargain, particularly for consumers in the U.S. Even now, gasoline in the U.S. is cheaper by the gallon than many brands of bottled water.

Car makers have made significant advances in technology to use hydrogen as a fuel, either for a fuel cell that generates electricity or as a replacement for gasoline in an internal-combustion engine. But storing and delivering hydrogen remains a costly obstacle to mass marketing of such vehicles.

Natural gas has enjoyed a resurgence of interest in the wake of big new gas finds in the U.S., and Honda markets a natural-gas version of its Civic compact car.

But there are only about 1,100 natural-gas fueling stations around the country, of which just half are open to the public, according to the Web site for Natural Gas Vehicles for America, a group that represents various natural-gas utilities and technology providers.

Among auto-industry executives, the bet now is that the leading alternative to gasoline will be electricity. Electric cars are a concept as old as the industry itself. The big question is whether battery technology can evolve to the point where a manufacturer can build a vehicle that does what consumers want at a cost they can afford.

"The No. 1 obstacle is cost," says Alex Molinaroli, head of battery maker **Johnson Controls** Inc.'s Power Solutions unit. Johnson Controls is a leading maker of lead-acid batteries -- standard in most cars today -- and is working to develop advanced lithium-ion automotive batteries in a joint venture with French battery maker Saft Groupe SA.


Harry Campbell

**The Costs Add Up**

Cost is a problem not just with the advanced batteries required to power a car for a day's driving. There's also the cost of redesigning cars to be lighter and more aerodynamic so batteries to power them don't have to be huge.

There's the cost of scrapping old factories and the workers that go with them -- a particular challenge for Detroit's Big Three auto makers, which have union agreements that make dismissing workers difficult and costly.

A world full of electricity-driven cars would require different refueling infrastructure but the good news is that it's already largely in place, reflecting a century of investment in the electric grid.

The refueling station is any electric outlet. The key will be to control recharging so it primarily happens when the grid isn't already stressed, but controllers should be able to steer recharging to off-peak hours, likely backed by discount rates for electricity.

Big utilities in the two most populous states, California and Texas, are adding millions of smart meters capable of verifying that recharging happens primarily in periods when other electricity use is slack. Studies show the U.S. could easily accommodate tens of millions of plug-in cars with no additional power plants. Three big utilities in California are planning to install smart meters capable of managing off-peak recharging. The estimated cost: $5 billion over the next five years.

**Remembering the Past**

Americans often reach for two analogies when confronted with a technological challenge: The Manhattan Project, which produced the first atomic bomb during World War II, and the race to put a man on the moon during the 1960s. The success of these two efforts has convinced three generations of Americans that all-out, spare-no-expense efforts will yield a solution to any challenge.

This idea lives today in **General Motors** Corp.'s crash program to bring out the Chevrolet Volt plug-in hybrid by 2010 -- even though the company acknowledges the battery technology required to power the car isn't ready.

Even if GM succeeds in meeting its deadline for launching the Volt, the Volt won't be a big seller for years, especially if estimates that the car will be priced at $40,000 or more prove true.

Moon-shot efforts like the Volt get attention, but the most effective ways to use less energy may have less to do with changing technology than with changing habits.

A 20-mile commute in an electric car may not burn gasoline, but it could well burn coal -- the fuel used to fire electric power plants in much of the U.S. The greener alternative would be to not make the drive at all, and fire up a laptop and a broadband connection instead.

**--Mr. White is a senior editor for The Wall Street Journal in Washington.**

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# Health

**September 15, 2008**

**EDITORIAL**

# Gambling With Medicaid

Rhode Island is seeking a federal waiver to change much of its Medicaid program from an open-ended entitlement with no limit on spending to a capped budget with fixed expenditure limits.

Gov. Donald Carcieri, a Republican, is hoping to close his state's looming budget deficits and curb rising Medicaid costs, two problems that are bedeviling many states. But prudent leaders would be wise to watch what happens — and especially what happens to Rhode Island's poorest residents — before following this path.

Medicaid has traditionally been an "entitlement program" that pays the medical bills of all residents whose incomes are sufficiently low to qualify for coverage. There is no limit on how many people can enroll or on how much the state and federal governments must spend to provide services. In the current fiscal year, Rhode Island's Medicaid program is costing about $1.9 billion — with slightly more than half paid by the federal government and the rest by the state.

Under the proposed waiver, the federal government would contribute a fixed annual amount for the next five years (roughly what it was projected to spend anyway), but Rhode Island would limit its contribution to 23 percent of its general revenue budget.

That would mean substantially less money for Medicaid. An analysis by the Center on Budget and Policy Priorities estimates that if the waiver is granted, the state's Medicaid budget will fall $231 million short of the projected $2.07 billion needed next year — with the gap increasing every year.

The state is hoping to make up the difference, without harming patients, by providing health care more cheaply. It wants to require most long-term care patients to get treatment at home or from community-based services rather than in expensive nursing homes and would put virtually all beneficiaries in managed care.

If that isn't enough, it wants flexibility to charge higher co-payments, put people on waiting lists for treatment, and limit the duration and scope of services.

States already have great leeway when it comes to Medicaid, so it may be reasonable to give Rhode Island the flexibility to try something new. This is still a risky path. If costs escalate more rapidly than expected and savings don't materialize, the state might feel obliged to cut Medicaid spending even more drastically. Rhode Island's most vulnerable citizens would pay the price.

The New York Times
nytimes.com



**September 15, 2008**

# Small Patients, Big Consequences in Medical Errors

By LAURIE TARKAN

WHEN 6-year-old Chance Pendleton came out of surgery for a wandering eye, it was obvious that something was not right. "He was crying hysterically, vomiting and kept saying, 'I wish I was dead,' " his mother, Grace Alexander, of Paris, Tex., recalled.

The boy had been through surgery before and had never reacted this way. "The nurse was quite peeved and wanted me to calm him before he disturbed anyone," said Ms. Alexander, who said Chance was denied more pain and anti-nausea medication. "She thought he was just throwing a tantrum."

After about 20 minutes, another nurse walked by, and Ms. Alexander beckoned her for help. The nurse checked the intravenous line in Chance's ankle and saw that it wasn't inserted correctly. He wasn't receiving any medication. She immediately fixed it, bringing relief to Chance in a matter of seconds.

Medical mistakes, though also common in adults, can have more serious consequences in children, doctors say. The actor Dennis Quaid's newborn twins nearly died last year after receiving 1,000 times the prescribed dose of a blood thinner. Other infants have died from the same error. A study in the journal Pediatrics in April found that problems due to medications occurred in 11 percent of children who were in the hospital, and that 22 percent of them were preventable.

An Institute of Medicine report nearly a decade ago highlighted the prevalence of medical errors, and they are still a major problem. "There's been slow progress in the decline of these errors," said Dr. Peter B. Angood, chief patient safety officer of the Joint Commission, the independent hospital accreditation agency. The agency recently called on hospitals to further reduce medication errors in children.

Children are also the victims of diagnostic errors, incorrect procedures or tests, infections and injuries.

Medical errors pose a greater threat to children than to adults for a number of reasons. They are physically small, and their kidneys, liver and immune system are still developing. Even a tiny increase in the dose of medication can have serious effects — especially in babies born prematurely. And if children take a turn for the worse, they can deteriorate more rapidly than adults. Children also are less able to communicate what they are feeling, making it difficult to diagnose their problem or know when a symptom or complication develops.

Adult medications are prepackaged and have standardized doses, but pediatric medications vary, based on the child's weight and sometimes height, requiring doctors to make calculations. It is easy to misplace a decimal point, a tenfold error.

Typically, an adult formulation is diluted for children, and sometimes "the amount of medication being diluted is smaller than an air bubble in a syringe," said Dr. Rainu Kaushal, director of quality and patient safety at the Komansky Center for Children's Health at NewYork-Presbyterian Hospital/Weill Cornell Medical Center.

"A pharmacist can get orders for 55 milligrams, 65 milligrams, 70 milligrams of the same medication," said Michael R. Cohen, president of the Institute for Safe Medication Practices, a nonprofit health care education organization. And medications for children come in different formulations, from drops to liquids to chewables. These variables increase the chance of human error, Dr. Kaushal said.

The Joint Commission reported that about 32 percent of medication errors in children in the operating room involved the wrong dose, compared with 14 percent in adults.

But not all errors happen in hospitals. Karen Rhodes was giving her 2-year-old daughter, Lanie, the prescription medication Zyrtec for allergies three times a day, as the label indicated. But Lanie began to suffer tremors, her breathing grew shallow, and she became "zoned out," her mother said. It turned out she was getting three times the recommended dose; the drug should have been taken once a day. It was the pharmacist's error, said Mrs. Rhodes, of Spartanburg, S.C.

At the American Academy of Pediatrics annual meeting in 2006, Dr. Kaushal reported that potentially harmful medication errors affected 26 percent of children in outpatient care.

"There needs to be more medications specifically manufactured for the pediatric population, more standardized dosing regimens and very accurate and clear labeling and packaging of medications," said Dr. Angood of the Joint Commission. A labeling issue caused the mix-up that led to the overdose of the Quaid twins. The label for a 10-unit dose of the blood thinner heparin, which is used to flush intravenous lines, looked similar to the label of the 10,000-unit dose that the twins were given.

TECHNOLOGY has helped to reduce medication errors. Two methods are favored by experts: an electronic prescribing system known as computerized physician order entry, and a system in which a bar code assigned to a patient is swiped against the bar code of the drug he is about to receive.

But these technologies are expensive and require training. Only about 10 percent of hospitals in the United States use computerized prescribing, and 20 percent use bar coding, said Dr. Cohen. One technology, adopted by about half of the hospitals in the United States, is the smart pump, a programmable intravenous device that regulates the amount and timing of drug delivery. Infections, which are considered errors because they are preventable, are also common among children being treated in hospitals. Studies of neonatal and pediatric intensive care units found that infections topped the list of medical errors, followed by medication errors and injuries from catheters (many are left in too long), said Dr. Paul J. Sharek, chief clinical patient safety officer of the Lucile Packard Children's Hospital at Stanford in Palo Alto, Calif.

Misdiagnosis is also common and can lead to serious complications or death. A study of malpractice lawsuits involving children visiting emergency departments found that meningitis, appendicitis and broken arms were the most common misdiagnosed conditions.

Hospitals can take simple measures to reduce mistakes. For example, when members of a surgical team take a time-out a moment before operating to check that they have the right patient, the right procedure and the correct location, errors are reduced.

Parents need to be the eyes, ears and advocates for their children. "Parents have to pay attention and speak up," said Dr. Steve Selbst, professor of pediatrics at Jefferson Medical College in Philadelphia, who conducted the study on malpractice suits. "You know your child, and if you feel something's wrong, go up the chain of command."

Chance Pendleton's mother said she was not aggressive enough. "I wish I had been more confrontational sooner," she said. "That was the worst 20 minutes of my life."

Here are some tips from experts for parents to lower the chance their child will be harmed by his or her treatment.

**ID BRACELETS** If your child is in the hospital, make sure the identification bracelet is worn at all times.

**HYGIENE** Ask all health care providers to wash their hands before approaching your child.

**INFORMATION** Before a procedure, ask the surgery team's members if they know exactly what the procedure is.

**KNOWLEDGE** Schedule a time every day to review with the physician and nurses the medications your child is taking and any other information about his care.

**AWARENESS** Keep an eye on catheters and incisions, looking for redness and swelling.

**ASK QUESTIONS** If your child is very sick, make sure a pediatric specialist is involved, and ask whether your child should be moved to a children's hospital.

**TALK ABOUT IT** Express your concerns about a missed diagnosis.

**BE PREPARED** Carry a list of the medications your child is taking and remind doctors about any allergies your child has.

**DOUBLE-CHECK** Understand why medications are being ordered, and don't be afraid to ask the doctor to double-check that he used your child's correct weight and height in calculating the dose.

**MEDICINES** Familiarize yourself with the medications so that you can recognize if your child is given the wrong pill or liquid. Ask about potential complications and whom to contact if your child has a reaction.

**VIGILANCE** Be especially watchful if your child is taking multiple medications or is on high-risk medications like chemotherapy drugs, insulin or heparin, or if your child has a compromised immune or organ function.

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# O&I

**September 15, 2008**

# Risks Found for Youths in New Antipsychotics

By BENEDICT CAREY

A new government study published Monday has found that the medicines most often prescribed for schizophrenia in children and adolescents are no more effective than older, less expensive drugs and are more likely to cause some harmful side effects. The standards for treating the disorder should be changed to include some older medications that have fallen out of use, the study's authors said.

The results, being published online by The American Journal of Psychiatry, are likely to alter treatment for an estimated one million children and teenagers with schizophrenia and to intensify a broader controversy in child psychiatry over the newer medications, experts said.

Prescription rates for the newer drugs, called atypical antipsychotics, have increased more than fivefold for children over the past decades and a half, and doctors now use them to settle outbursts and aggression in children with a wide variety of diagnoses, despite serious side effects.

A consortium of state Medicaid directors is currently evaluating the use of these drugs in children on state Medicaid rolls, to ensure they are being prescribed properly.

The study compared two of the newer antipsychotics, Zyprexa from Eli Lilly and Risperdal from Janssen, with an older medication and found that all three relieved symptoms of schizophrenia, like auditory hallucinations, in many young patients. Yet half of the children in the study stopped taking their drug within two months, either because it had no effect or was causing serious side effects, like rapid weight gain. The children receiving Zyprexa gained so much weight that a government oversight panel monitoring safety ordered that they be taken off the drug.

The long-anticipated study, financed by the National Institute of Mental Health, is the most rigorous, head-to-head trial of the drugs in children and adolescents with this disorder. About three million Americans suffer from schizophrenia, and perhaps 40 percent first show symptoms in their teens or earlier.

"This is really a landmark study, because these newer drugs have been around for 12 years or so now, and there were fundamental questions for which we really didn't have answers," said Dr. Sanjiv Kumra, director of the division of child and adolescent psychiatry at the University of Minnesota, who was not involved in the study.

Dr. Kumra said the results revealed significant differences in the drugs' side effects that should help doctors and patients choose among them.

"What this is saying is that all treatments work, at least for some people, and have serious risks for others," he said. "It's a trial-and-error process" to match people with the right medication.

Dr. Jon McClellan of the University of Washington, a co-author of the new study and of the current guidelines for treating childhood schizophrenia, said in a telephone interview that older schizophrenia drugs should now be considered as an alternative in some cases.

“Some of the children in this study gained 15 pounds or more in eight weeks,” Dr. McClellan said. “That’s as much as adults gain in a year on these medications. Children are especially susceptible to these side effects, and this has broad implications across the board, for the use of these agents to treat any disorder.”

Studies have found that more than 80 percent of prescriptions for atypical antipsychotics for children are to treat something other than schizophrenia, like autism-related aggression, bipolar disorder or attention-deficit problems. Some of these are approved uses; others are not.

The researchers, led by Dr. Linmarie Sikich of the University of North Carolina, recruited 119 young people, ages 8 to 19, who suffer from psychotic symptoms. The children received either Zyprexa, Risperdal or molindone, an older drug used to blunt psychosis. Neither the young patients nor the doctors treating them knew which drug was being taken, but the researchers told the youngsters and their parents that, if the medication was not working out, the family could switch to another one.

After eight weeks, 34 percent of the children taking Zyprexa, 46 percent of those on Risperdal, and 50 percent of those receiving molindone showed significant improvement.

But by that time so many of the patients had stopped taking the drug they were on that it was not clear that those differences were significant. Many had gained a lot of weight: an average of about nine pounds for those in the Risperdal group, and 13 pounds in the Zyprexa group.

Both groups also showed changes in cholesterol and insulin levels that are risk factors for diabetes. Those taking molindone gained less than a pound, on average, and had little metabolic changes.

“I thought the extra weight was putting a lot of pressure on me,” said Brandon Constantineau, 18, a study participant in Wilmington, N.C., who gained 35 pounds while taking Risperdal for several months. “Kids at school were making fun of me, all that. I knew I had to get rid of it. I exercised a lot, but it didn’t happen until I changed drugs.”

Mr. Constantineau said he was now doing well on a medication not offered in the study.

Dr. Sikich, the study’s lead researcher, said, “One implication of this study is that the guidelines for treating schizophrenia need to be revised, so that some of the milder, traditional or older medications are considered first-line treatments in some cases.” She added: “The other significant thing is that none of these medications were as well tolerated as we had hoped. We really need to find better alternatives.”

Spokesmen for Eli Lilly and Janssen said that their drugs were not approved to treat schizophrenia in children and that, given the limited number of options for such patients, there was a need for new therapies.

Jamaison Schuler, a spokesman for Eli Lilly, pointed out that the new study, at eight weeks in length, had not lasted long enough to pick up the most worrisome side effect associated with the older drugs: Parkinson’s-like movement problems, which are often irreversible. Patients in the study taking molindone also took another drug to reduce this risk.

Beginning in the early 1990s, psychiatrists turned to the newer drugs in large part to spare their patients those problems. Several large studies since then have shown that that shift — while perhaps sparing some patients movement problems — has had a cost.

A landmark comparison of older and newer drug in adults with schizophrenia, published in 2005, had findings similar to the new report. Most patients in the earlier study stopped taking the drug they were put on, and some of the medications were associated with rapid weight gain and other problems.

"I think the reason the use of these newer drugs has gone up so fast is that there was this widespread assumption that they were safer and more effective than what we had before," Dr. McClellan said. "Well, we're seeing now that that's not the whole story."

THE WALL STREET JOURNAL. ONLINE

September 15, 2008

REVIEW & OUTLOOK

# See You Later, Speculator

*September 15, 2008; Page A22*



It was said to be the year of speculators gone wild. Seemingly everyone in Washington, including Barack Obama and John McCain, decided that oil prices were soaring because profiteers and middlemen were manipulating the futures markets. "Speculators" were spotted everywhere this side of the grassy knoll.

The only problem is that there's no evidence to support the conspiracy theories -- and sure enough, federal regulators dismantled this Beltway consensus late last week. In one of the broadest and most authoritative studies to date, the Commodity Futures Trading Commission has offered hard statistical data that financial trading hasn't been driving price moves. The CFTC conducted an unprecedented Wall Street data sweep and scrutinized millions of transactions worth billions of dollars between January and June of this year.

Commodity futures markets have grown fivefold by volume over the last decade, while becoming more complex. "Index traders" are one cause. These pension funds and other institutional investors don't buy options for commercial use, but rather roll them over from month to month as passive long-term investments. "Swap dealers," usually investment banks, operate off the main exchanges and sell customized futures packages to firms. These aggregations of options and derivatives are designed to match particular needs and spread risk more broadly.

Lo and behold, the CFTC found that index traders and swap dealers actually *reduced* their stake in crude oil futures as prices spiked. The number of contracts held by these investors betting that prices would increase -- the net long position -- fell by 11%, and more were shorting oil than going long over the six-month period. In other words, index traders and swap dealers were driving the future price of oil *down*.

Commodity index funds also have a much smaller share of the oil market than everyone thought: just 13%. Even if the figure was 70% or more, as some assumed, it wouldn't have mattered. In a futures exchange, trades are matched, so one trader's gain is another's loss. The overall volume is irrelevant.

The CFTC study is especially notable because it came in response to extraordinary political pressure. Congress held more than 40 hearings on "speculation" over the summer, and commission chief Walter Lukken was the pinata. Federal bureaucracies have been known to try to appease their Congressional funders, so the CFTC deserves special credit for debunking the speculator frenzy.

As it happens, the CFTC report arrived just as the Moe, Larry and Curley of the antispeculation show -- Senators Byron Dorgan and Maria Cantwell, and Michigan Democrat Bart Stupak -- pre-emptively released their own study, by Virgin Islands fund manager Michael Masters, which purports to show "index speculators" are "now the single most dominant force in the commodities futures market." Bad political timing, folks.

Then again, the speculation furor was never about the evidence. The politicians wanted a fall guy for rising prices, since the real explanations of supply and demand and the falling dollar were partly their fault. On that point, the CFTC rightly notes that the expansion of commodities indexing can be partially explained by investors seeking to "hedge against inflation." It's not surprising that traders have been driven to commodities to protect themselves, given that the Federal Reserve, Bush Administration and Congress have all trashed the dollar.

No doubt the politicians will keep trying to shoot the price messengers, but thanks to the CFTC they look increasingly silly in doing so.

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