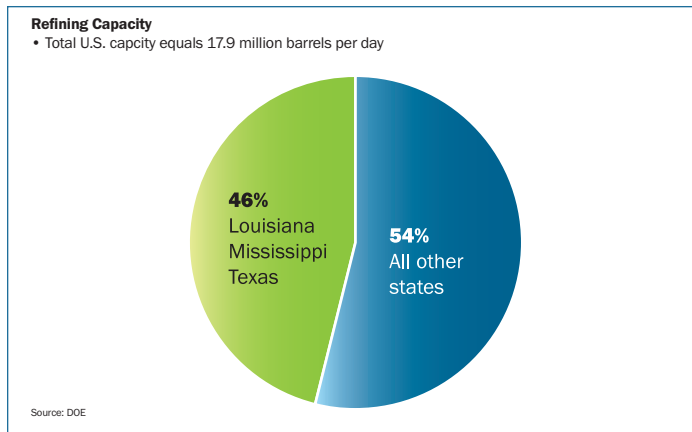


America's Oil and Natural Gas Industry

Hurricane Response and Market Effect: An API Fact Sheet

The recent hurricanes that ripped through the Gulf of Mexico put a strain on U.S. oil and natural gas operations. Hurricanes Gustav and Ike led to the near-complete shutdown of the oil and natural gas infrastructure and production in the Gulf area, a major supplier of domestic energy.

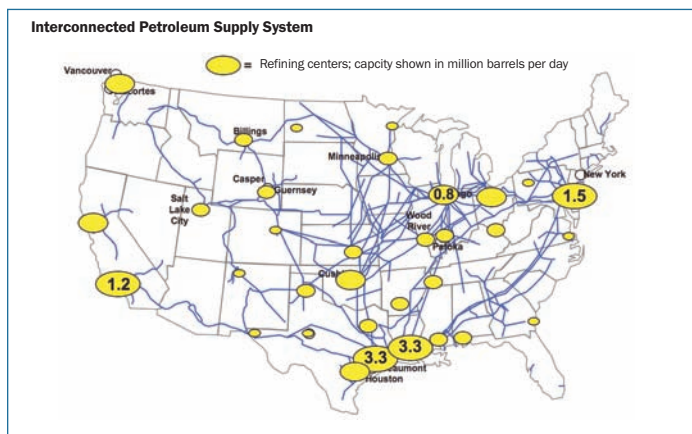
As a result of the temporary loss of gasoline production and pockets of surging demand, fuel prices rose in some areas across the country. Many have asked: "Why should the price of gasoline increase in my area when we are nowhere near the hurricane-affected areas?" API has assembled this fact sheet to help consumers better understand the interconnected U.S. fuel supply system and what happens when a supply shock, such as a hurricane, occurs.



Refining Capacity

The Gulf Coast region of Louisiana, Mississippi and Texas is the heart of the nation's oil and natural gas industry. It accounts for 46 percent of U.S. refining capacity and the Gulf of Mexico accounts for about 25 percent of the oil and 15 percent of the natural gas produced in the United States.

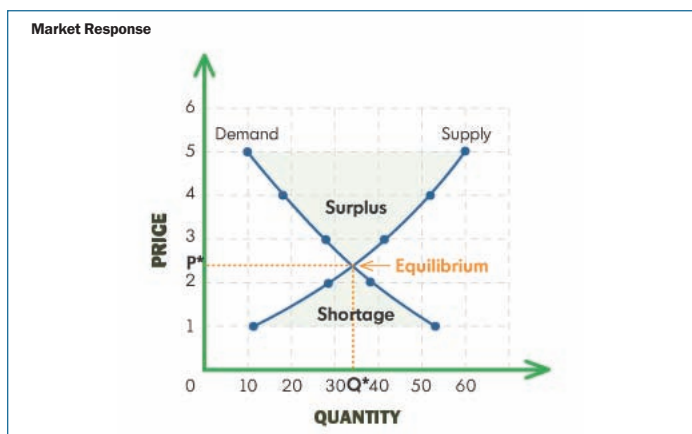
In advance of a tropical storm or hurricane, companies will evaluate and may decide to evacuate all non-essential personnel and begin the process of shutting down production, refining operations and pipelines. After a storm passes, companies must perform extensive inspections and damage evaluations to determine when it is safe to resume operations. Even if there is no damage, production cannot always resume immediately. For example, restarting a refinery is complicated and it may take several days to restore full production. The restoration of power supplies is crucial, and electricity disruptions are common after a hurricane. Refineries also can be hampered by a lack of crude oil feedstock if offshore production platforms or ports and pipelines have sustained damaged or loss of power supply.



Interconnected Petroleum Supply System

Refineries and pipelines originating in the Gulf Coast region are major suppliers to other parts of the nation which is why motorists in states far from Texas and Louisiana can feel the price effects of a hurricane.

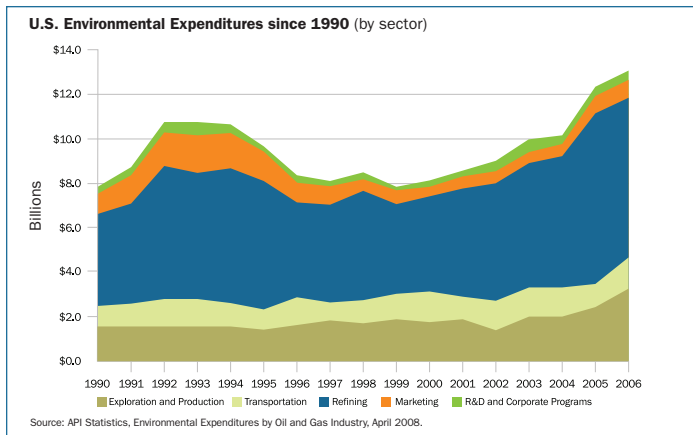
According to the Energy Information Administration (EIA), half the gasoline used on the East Coast and half of the crude oil run in refineries in the Midwest are shipped from the Gulf Coast region of the United States. In 2007, 1.9 billion barrels of crude oil, 1.3 billion barrels of petroleum products and 547 million barrels of finished motor gasoline were transported from the Gulf area throughout the country using all modes of delivery, including pipeline, tanker and barge.



Market Response

When a hurricane disrupts refinery operations, the combination of an immediate loss of gasoline and diesel production and a lack of demand for crude oil can result in a two-tier market – the price of fuel can rise and the price of crude can fall. At the same time, there also can be pockets of rising demand for fuel.

As we saw in the aftermath of hurricanes Katrina and Rita, market forces and the cooperation of government and the oil and natural gas industry were the most effective path to a restoration of supplies. Obviously, when there is a disruption in supply and operations there are challenges in ensuring fuel is available to all customers. The industry seeks to resume normal operations as quickly and safely as possible to continue to meet consumer demand. The government also steps in to alleviate supply concerns by issuing multi-state fuel waivers which encourage imports, and by offering crude oil from the nation's Strategic Petroleum Reserve.



Environmental Expenditures

During the powerful 2005 hurricanes Rita and Katrina, the oil and natural gas industry did not experience any significant spills from offshore facilities.

The nation's oil and natural gas industry invests heavily in advanced technology to produce the energy our nation needs while protecting the environment. The industry is committed to safety and environmental protection. From 1996 to 2006, the industry invested \$95 billion in environmental protection, or nearly \$319 for every person living in the United States. It is vital to understand the environmental conditions in and around the Gulf of Mexico and to apply that knowledge to make offshore and onshore facilities less vulnerable when hurricanes hit.



Safety

The oil and natural gas industry has developed standards to ensure the safety of personnel on drilling rigs and platforms leading up to and following a hurricane.

Days in advance of a tropical storm or hurricane moving toward or near their drilling and production operations, companies will evaluate the situation and may decide to evacuate personnel and may relocate drillships to a safe location. After a storm has passed, operators initiate "flyovers" of onshore and offshore facilities to evaluate damage from the air. Once safety concerns are addressed, operators will send assessment crews to offshore facilities to physically assess the damage. If facilities and supporting infrastructure are undamaged and ready to accept shipments, operators will begin restarting production and drilling rigs will commence operations.



Consumer Tips

When a hurricane threatens to disrupt fuel production, it is important for consumers to conserve energy and not change their buying habits.

According to FEMA, consumers in the path of a hurricane or tropical storm should have a proper safety and evacuation plan and secure their homes. As a storm approaches, consumers around the country should conserve energy use in homes and vehicles and maintain regular buying habits which can help alleviate a sudden surge in demand.

Policy Choices Needed to Ensure Future Energy Security

- ❖ Reduce barriers to increasing domestic supplies.
- ❖ Encourage energy efficiency.
- ❖ Encourage investment in long-term energy initiatives and advanced technologies.
- ❖ Rely on market forces to allocate products.
- ❖ Refrain from new taxes that make it more expensive to develop our domestic supplies.
- ❖ Support the need to participate actively in global energy markets rather than isolate the U.S.

For more information, visit www.energytomorrow.org or www.api.org/Newsroom/hurricane/index.cfm.