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June 29, 2007

Dear Member of Congress:

With energy issues high on the Congressional agenda and the summer driving season well underway, I thought it helpful to update you on our nation's gasoline situation to assist you in talking with your constituents over the Independence Day break.

According to AAA, the average price for regular gasoline, which reached \$3.23 a gallon on May 23, fell to \$2.98 a gallon on June 27. Prices have moderated in part because of strong gasoline production that is at record levels for 2007 year to date. Last week, production reached 9.48 million barrels per day – the highest weekly average on record.

The added supplies, however, have struggled to keep pace with rising demand. Demand for gasoline has also been setting records, a reflection of the nation's growing economy and population. Growing demand is not new, which is why the oil and natural gas industry has been increasing fuel supplies by expanding refinery capacity and by importing more gasoline. Between 1997 and 2007, the industry increased the supply of gasoline, diesel and heating oil to U.S. consumers by nearly 20 percent.

Over the past month, crude oil prices have risen approximately five cents per gallon and, concurrently, retail gasoline prices have fallen 25 cents per gallon. While gasoline prices have eased somewhat, huge challenges remain. Crude oil prices have reached \$70 per barrel, spurred by strong growth in global demand and continued worries about unrest in producing countries. Refiners must pay more than \$1.60 for each gallon of crude oil they need to make a gallon of gasoline. The cost of crude plus taxes paid at the pump (about 46 cents a gallon on average) accounts for more than two-thirds of the price of gasoline.

There are no quick fixes to our energy challenges. Round-the-clock ingenuity, huge investments (the industry invested \$176 billion in new U.S. projects last year), and a resolute commitment to ensuring fuels are reliably supplied to customers are all essential. Policies favoring steady additions to supply are indispensable. Those policies ought to encourage development of every viable form of energy and more efficient use of each of them. The industry is bullish on, and supportive of, alternatives. Our companies are leaders in their development. However, an "either-or" energy policy—one that favors alternative energy at the expense of oil and natural gas—is short-sighted and could end up harming both consumers and the economy. Oil and natural gas are the indispensable bridge to anyone's projected realization of an alternative fuels future.

We urge caution with respect to pending energy legislation that imposes tax increases on the industry, clothes fuel price controls in the guise of price gouging authority, hugely increases renewable fuels mandates with no market test mechanisms to adjust requirements if the new fuels are unavailable, and restricts access to the already small percentage of non-park federal lands that are available for oil and natural gas development. Taken together, this legislation will restrict domestic production, impede refinery capacity expansion, and otherwise increase the gap between supply and demand for oil, natural gas, and derivative fuels. It sets back realization of the goal of energy security.

Make no mistake, creating a strong energy future for our nation is a formidable challenge. Neither government nor industry can realize this vision alone. Let us all work together to try and best serve the American consumer and keep the U.S. economy competitive in an increasingly competitive global economy. For more information, please visit our website (www.api.org) or call Jim Ford, API Vice President of Government Affairs, at (202) 682-8210.

Sincerely,

A handwritten signature in black ink, appearing to read "Red Cavaney", written in a cursive style.

