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Dear Member of Congress:

We understand the concerns your constituents no doubt expressed to you in your meetings during the recess about the increased cost of gasoline and other fuels. Hopefully, those concerns are addressed on our websites www.api.org and (www.factsonfuel.org).

This year has been described as the “worst political-risk year” for energy supplies since the oil embargo year of 1973. Recent weeks have seen increasing concern about potential supply interruptions from geopolitical turmoil, conflicts, and uncertainty in such countries as Chad, Iran, Iraq, Nigeria, and Venezuela. These developments have driven up the price of crude oil on the global market and, because crude comprises more than half the cost of a gallon of gasoline, have had a significant impact on prices here in the United States.

Oil companies do not set the price of crude oil. Crude oil is bought and sold in international markets, and the price of a barrel of crude oil reflects the market conditions of the day. Strong growth in worldwide demand, in the face of diminished excess supply capacity and together with increased supply uncertainty, has pushed prices upward.

Additional factors are the end of the reformulated gasoline (RFG) oxygen requirement on May 5 and the phase-out by some refiners of the gasoline additive MTBE. The elimination of the RFG oxygen mandate, state MTBE bans (26 states have banned and more than a dozen others are currently considering bans), and announcements by refiners, pipelines and marketers point to a rapid reduction in the use of MTBE.

According to the EIA, refiners are making a maximum effort to switch to ethanol, but they must deal with logistical challenges in its transport. Unlike MTBE, ethanol cannot be shipped through pipelines and must be carried by barge, rail car or tanker truck. Moreover, ethanol is more expensive than gasoline, and imports face a 54 cent per gallon tariff. The oil and gas industry, however, is the largest consumer of ethanol and will continue to play a key role in facilitating our nation’s use of ethanol.

U.S. oil and natural gas companies have been working hard to provide additional supplies to the marketplace while meeting stringent environmental requirements:

- Domestic oil production from the Gulf of Mexico continues to recover from Hurricanes Katrina and Rita. According to the U.S. Minerals Management Service, 22 percent of the oil production and 13 percent of the natural gas production from the Gulf remains shut in. Nevertheless, drilling activity remains at a high level and has helped offset this reduction.
- Crude oil inventories have been building and are at record levels. For the week ending April 14, crude stocks were 341.3 million barrels, or 21.3 million barrels above the level a year ago. Inventories must be built ahead of heavy summer demand.
- Refineries were operating at 86.7 percent of capacity last month. Some refineries are undergoing routine maintenance that had to be delayed because of the hurricanes. Moreover, the industry is still recovering from the hurricanes’ extensive damage. One refinery now returning to full capacity and two others not yet fully operational represent a combined capacity of 804,000 barrels per day, or nearly 5 percent of total U.S. refinery

capacity. When this is taken into consideration, the industry's utilization rate is comparable to the 90.2 percent rate for March 2005.

- Despite the logistical challenges in blending ethanol in gasoline, the industry expects to meet the 4 billion gallon Renewable Fuels Standard for 2006. In many regions of the country, consumers are already driving on a mixture of gasoline and 5.7 percent to 10 percent ethanol.
- Refiners are completing the third year of a three-year schedule to eliminate 90 percent of the sulfur in gasoline. This already has enabled automobile manufacturers to begin equipping new passenger cars and light trucks with the advanced technology necessary to comply with stringent emissions standards promulgated by the Environmental Protection Agency.
- Finally, refiners are also reducing the maximum amount of sulfur allowed in on-road diesel fuel by 97 percent to enable the production of substantially cleaner new diesel engines. For more information on ultra-low sulfur diesel, go to (www.clean-diesel.org).

Despite the factors weighing on the international oil market, and in the face of industry efforts to increase supply, some are again accusing the industry of "price gouging." Let me make it clear: API and its member companies condemn price gouging. Our industry has been repeatedly investigated over many decades by the Federal Trade Commission, other federal agencies, and state attorneys-general. None of these investigations have found our companies to have engaged in anti-competitive behavior to drive up fuel prices.

Industry is doing all it can to meet consumer energy needs, but it cannot meet U.S. energy challenges alone. Our nation's energy policy needs to focus on increasing supplies, energy efficiency, and encouraging responsible development of alternative and nonconventional sources of energy. Congress can help by opening up more of the resource-intensive areas in our nation that are off limits to new production. We stand ready to work with the Administration and the Congress in addressing proposals that enhance the energy readiness of our nation.

For more information, please visit our website (www.api.org), or call Jim Ford, API Vice President for Government Affairs, at 202-682-8210.

Sincerely,

A handwritten signature in black ink, appearing to read "Red Cavaney". The signature is stylized and cursive.

Red Cavaney