



EIA: Hurricane Katrina's Impact on the U.S. Oil and Natural Gas Markets

Posted by [Prof. Goose](#) on September 1, 2005 - 6:37pm

Topic: [Supply/Production](#)

[EIA's latest report is up.](#) The details are numerous and foreboding. Reprinted below the fold. (thanks mw).

As of Thursday, September 1, 3:00 pm

According to the Minerals Management Service (MMS), as of 11:30 Central Time September 1, Gulf of Mexico oil production was reduced by over 1.356 million barrels per day as a result of Hurricane Katrina, equivalent to 90.43 percent of daily Gulf of Mexico oil production (which is 1.5 million barrels per day). The MMS also reported that 7.866 billion cubic feet per day of natural gas production was shut in, equivalent to 78.66 percent of daily Gulf of Mexico natural gas production (which is 10 billion cubic feet per day).

There have been many reports in the media of gas stations in various parts of the country that are out of gas. While EIA does not monitor supplies at individual stations or localities, there are some reasons why this may be occurring at selective stations. With about 2 million barrels per day of refining capacity shut in or reduced due to Hurricane Katrina, approximately 1 million barrels per day (42 million gallons per day) of gasoline is not being produced. This represents about 10 percent of the nation's consumption, and is a major drop in the normal flow of gasoline through the system. In addition, major pipelines originating in the Gulf of Mexico area (namely the Plantation and Colonial product pipelines and the Capline crude oil pipeline) have been severely impacted or are closed. As a result, the distribution of gasoline, particularly in the Gulf Coast, Midwest, and East Coast regions of the country, has been significantly affected. Localities that were being served from gasoline terminals which already had low inventory levels, perhaps because they were expecting a delivery in the near future, could run out of supply before the next delivery arrives. Other areas which did have plenty of inventories on hand prior to the loss of the refineries and pipelines will be able to withstand the loss of supply for a longer time. However, it is impossible for EIA to know which terminals were well supplied and which ones were not prior to Hurricane Katrina, since EIA does not collect inventory data for individual terminals. But as soon as these stations are able to receive additional gasoline, they should be able to re-open.

Petroleum

As of August 26, (the most recent data available), U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) decreased by 1.5 million barrels from the previous week. At 321.4 million barrels, U.S. crude oil inventories are well above the upper end of the average range for this time of year. Total motor gasoline

inventories declined by 0.5 million barrels last week, putting them near the bottom end of the average range. Distillate fuel inventories increased by 2.7 million barrels last week, and are above the upper end of the average range for this time of year. Total commercial petroleum inventories rose by 2.4 million barrels last week and now stand above the upper end of the average range for this time of year. Total product supplied over the last 4-week period has averaged 21.5 million barrels per day, or 2.3 percent more than averaged over the same period last year.

Impact on Refineries. Unlike 2004's Hurricane Ivan, which affected oil production facilities and had a lasting impact on crude oil production in the Gulf of Mexico, it appears that Hurricane Katrina may have a more lasting impact on refinery production and the distribution system. However, that news is varied, with some refineries likely able to restart their operations within the next 1-to-2 weeks, while others will likely be down for a more extended period, possibly several months in length. There are several factors currently inhibiting refinery production (see EIA's This Week in Petroleum).

The U.S. distillate surplus that built up over the last several months will certainly be important as seasonal emphasis shifts to heating oil. While distillate prices will react to crude price and related developments, the more critical near-term product problem relates to gasoline.

Ports and Pipelines

On Thursday, September 1, it was expected that the Louisiana Offshore Oil Port (LOOP) might unload its first tanker cargo since August 27. A pipeline controlled by the port meets the Capline pipeline system in St. James, Louisiana, which connects to refineries. The port had already started making deliveries to Exxon Mobil Corp.'s Baton Rouge refinery from storage.

According to the director of Port Fourchon (located in Louisiana), the port is hoping to get its inland waterway system open Thursday evening, which would help support the oil and gas facilities in the region. The port had already re-established offshore access on Wednesday. Once the port is fully open, equipment and other supplies will be able to get to oil and gas platforms in the Gulf of Mexico.

On Thursday, the Department of Energy announced an agreement to loan 3 million barrels of sweet crude oil and 3 million barrels of sour crude oil to ExxonMobil from the Strategic Petroleum Reserve. The Department of Energy also stated that they are in the process of reviewing other loan requests.

As of September 1, Capline (a major crude oil production that runs from the Gulf Coast to Midwest refineries) had returned to service, though at a reduced rate. Two major product pipelines from the Gulf Coast to the East Coast, Plantation and Colonial, are also running, though at reduced capacity.

Natural Gas

As of the close of trading on Thursday, September 1, the natural gas futures price for October delivery was up 29 cents, to reach \$11.76 per million Btu, an all-time high (unadjusted for inflation). In trading on the Intercontinental Exchange, the Henry Hub spot price was \$11.36 per MMBtu, down \$1.334 from yesterday (Wednesday) but still up about \$1.50 per MMBtu from last Friday's price (before the storm). At market

locations across the Gulf region, price decreases today ranged up to \$1.86 per MMBtu with an average of \$1.30 per MMBtu. The overall average change in price was \$1.05 per MMBtu.

There are reports that Hurricane Katrina may have damaged four natural gas processing facilities on the Gulf Coast with a combined capacity of 5.5 Bcf per day, which is the equivalent of almost 10 percent of total national production. Follow-up reports have not indicated expected outages longer than a few weeks, with many units expected on line within a few days. A full assessment of some facilities, however, will require onsite inspections. If these or other plants are inoperable for any length of time, the loss could delay a recovery of natural gas production in the area. Even if platforms and pipelines are either unaffected or readily restored to service, the gas often can't flow to market without treatment. In 2003 (the latest year with complete data), almost three-fourths of total U.S. marketed gas production was processed prior to delivery to market.

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