Even before Hurricane Katrina, gasoline and diesel prices were setting record highs in the United States because of reduced crude oil supplies, a warm summer and increased demand worldwide for transportation fuels. The Gulf of Mexico, hit hardest by the storm, is a major supply source for oil and gas in the country. The region also serves as a major point for energy imports to the nation and is a nexus for pipeline infrastructure.

Hurricane Katrina caused significant damage to offshore rigs, refineries, pipelines and ports. According to the Minerals Management Service, oil production in the Gulf of Mexico was reduced by 57 percent, or 861,000 barrels per day, because of the storm. The MMS also reported that 4 billion cubic feet per day of natural gas production—or 40 percent of the region’s daily natural gas production—was shut-in, or capped.

The convergence of these developments means higher energy prices.

According to the Energy Information Agency (EIA), residential per-household expenditures for fuels are likely to rise significantly this winter compared to last year. The EIA anticipates a 71-percent increase for natural gas and a 40-percent increase for propane in the Midwest, a 17-percent increase for electricity in the South and a 31-percent increase for heating oil in the Northeast.

Federal Efforts

Recovery is in progress and improvements are being fast-tracked by the industry in cooperation with the U.S. Department of Energy (DOE). Electrical power has been restored to some refineries and several others should begin producing again soon. Others, however, are expected to be shut down for six to 12 months.

In the week following the hurricane, several factors converged to bring the national average price of gasoline to $3 per gallon. In an effort to alleviate pressure on the market and on the price of gasoline, the federal government drew down crude oil from the National Strategic Petroleum Reserve to supply refineries. The Jones Act, which requires the inclusion of special gasoline additives used in the summer months, was waived to allow the use of “winter blend” reformulated gasoline. The federal government also waived the requirement for low sulfur diesel use.
States' Roles in Energy Policy

States are involved in all aspects of energy production and consumption, including developing policies to contain costs and promote energy efficiency. In Katrina’s aftermath, this role becomes even more important as states act to reduce the storm’s impact on citizens and state economies.

Price gouging is not uncommon after a major disaster. Fourteen states currently have laws against price gouging, and the Shreveport Times noted that Louisiana enacted its law weeks before Hurricane Katrina struck.

The U.S. Department of Energy established a price gouging complaint line, but consumers can also combat price gouging by contacting their state’s attorney general. According to the DOE, nationwide price gouging complaints rose from 200 before the storm to 1,200 after Katrina hit.

In Georgia, Gov. Sonny Perdue also acted to protect the state’s gas supply and to prohibit price gouging on motor fuels. Perdue signed an executive order calling for a temporary moratorium on collection of state motor fuel taxes and requested federal authorization for 24-hour delivery of gasoline to gas stations. Perdue waived regulations that require special additives to gasoline in summer months and approved the use of alternate diesel fuel.

The results? According to CNN Money, drivers in Georgia saw lower pump prices a week after the state temporarily suspended the 7.5 cents per gallon gas tax and 4-percent sales tax on gasoline. As of early September, Arizona, Florida, Georgia, Indiana, Michigan, Montana, Nevada, New Mexico, New York, North Carolina, Oklahoma, Pennsylvania, Utah, Washington state and Washington, D.C., were considering similar measures.

The Christian Science Monitor pointed out that even before Hurricane Katrina, state lawmakers were taking action to combat the high prices of fuel. Legislators in Wisconsin, Michigan and Missouri have considered state sales “tax holidays” on gasoline.

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