



Harvey could add to oil glut, depress prices

OIL: So much crude is in storage that prices declined as a major storm hit the Gulf Coast

By Collin Eaton | September 7, 2017 | Updated: September 7, 2017 9:55pm

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The storm has passed and the floodwaters have receded, but Tropical Storm Harvey could still slow Houston's economy.

As the U.S. oil capital emerges from the worst storm in decades, its central industry will have to contend with a rush of crude that has been stranded for almost two weeks after more than a dozen major refineries, with almost a quarter of the nation's refining capacity, shut down along the Gulf Coast.

"It's a pretty big bubble to burn off," said Robert Sullivan, a managing director at the consultancy AlixPartners in New York. "They're not going to be able to refine it away."

Oil prices, analysts said, could slide further under \$50 a barrel as crude storage tanks fill up in coming weeks, piling onto the oil glut that has loomed over local energy companies for more than three years, as Saudi Arabia and Russia approach the 10-month mark in their attempt to



Photo: KAREN BLEIER, Staff

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An oil well near Tioga, North Dakota. (AFP PHOTO / Karen BLEIER / FILESKAREN BLEIER/AFP/Getty Images)

curb the global oversupply and lift stubbornly low prices.

That Harvey's lumbering journey through the Gulf Coast sank oil prices instead of sending them much higher - as major hurricanes almost always did a decade ago - shows just how much the U.S. energy industry has changed and how much fuel is still left in U.S. storage tanks after the explosion of drilling in West Texas, North Dakota and Oklahoma.

In September 2005, when Hurricane Katrina lashed the Louisiana coast, the Gulf of Mexico made up almost a third of U.S. oil production, and drillers shut in as much as 870,000 barrels per day, more than half of the region's output. U.S. crude prices surged 10 percent to almost \$70 a barrel.

But as Harvey approached late last month, drillers in the Gulf of Mexico and the Eagle Ford Shale in South Texas had cut oil production by up to 800,000 barrels a day combined. Since the advent of shale drilling, the Gulf of Mexico has become far less consequential, accounting for 18 percent of U.S. oil production, down from about 25 percent a decade ago.

The storm also forced Exxon Mobil Corp., Valero Energy, Motiva and others to shut down a vast network of refineries, pipelines and seaside ports along the Gulf Coast, leaving oil with no place to go but into storage tanks, said Mark Broadbent, an analyst at energy research firm Wood Mackenzie in Houston. That is going to push oil prices down, he added.

On Thursday, the Energy Department said the amount of oil held in U.S. storage tanks rose by 4.6 million barrels last week, the department's first report after Hurricane Harvey.

Also pushing oil prices down, at least temporarily, will be sluggish gasoline demand in the wake of Harvey, which slammed into a region that consumes nearly a third of the nation's refined fuels, and Hurricane Irma, a Category 5 hurricane expected to hit Florida over the weekend.

Along the Gulf Coast, at least 500,000 cars were lost to the floodwaters, as schools and businesses shut down for a week.

"You had a city that went into paralysis," said Bill Herbert, an analyst at the Houston investment bank Simmons & Company International. "It's a full hit to gasoline demand. September is going to look ugly."

After Hurricane Ike slammed into Texas in September 2008, U.S. gasoline demand fell by roughly 600,000 barrels a day, or 6.5 percent. This year, gasoline demand had already begun to falter toward the end of the summer driving season, which typically ends on Labor Day, and pump prices should drop over the next four months, despite the recent jump in prices,

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which analysts attributed to temporary shortages caused by the storm.

On Thursday, the Energy Department said six refineries in the Gulf Coast region remained shut down and five had begun to reboot, while another six operated at reduced rates of gasoline production.

As gasoline prices moderate, the cheaper fuel will be available for rebuilding efforts in Houston, along the Gulf Coast, and in Florida, as refiners turn the oil glut into gasoline, said Michelle Foss, chief energy economist at the University of Texas' Bureau of Economic Geology.

"That's the silver lining," Foss said.
"Cheap fuel will be necessary to get things moving again."



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