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Katrina Roils Energy Markets

Investments in clean energy soar after Katrina shuts down oil refineries, pipelines, and offshore rigs.

September 2, 2005

Hurricane Katrina struck a hard blow at the energy industry, shutting down 12 percent of the U.S. refining capacity, but there were some signs of hope for the Labor Day weekend.

In an International Energy Agency agreement, U.S. and European governments agreed to release 60 million barrels of crude oil, stockpiled for emergencies, over the next month.

Commodity prices that soared earlier in the week fell on the news. Light sweet crude futures for October fell \$1.90 to \$67.57 a barrel on Friday, and gasoline futures—an indicator of wholesale pricing trends—tumbled nearly \$0.23 to \$2.18.

For U.S. consumers, gasoline prices will likely peak at between \$3 and \$4 per gallon. But the lower price for futures suggests retail prices may ease slightly in coming weeks.

For the time being, at-the-pump supplies are running low and prices are moving higher, and energy industry experts are scrambling to assess the impact on conventional and alternative energy sources.

Standard & Poor's Equity Research stuck to a positive outlook on integrated oils and refiners, and said it expected that the "bullish price impact" of the hurricane would be felt for months.

Ron Pernick, co-founder and principal of cleantech research firm Clean Edge, and several others said the effect has been more psychological—underlining the risks of relying on fossil fuels.

"While most clean technologies have been declining in cost, fossil fuel-based energy sources have been volatile and rising rapidly in recent years," said Mr. Pernick. "[Hurricane Katrina demonstrates] the strong case to be made for consistent and reliable supplies of clean-energy technologies and energy efficiency measures."

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 -Ron Pernick, Clean Edge

Wake-up Call

While Europe and Japan have grown accustomed to high oil prices, the United States is arriving late to the realities of a high-priced gasoline world, said Mr. Pernick. Those high prices are one reason clean energy development has flourished in Japan, the United Kingdom, and Germany. Likewise, high prices will continue to have a positive impact on clean energy development in the U.S., he said.

Investors certainly seem to think so. Investment in the PowerShares WilderHill Clean Energy Portfolio, an exchange-traded fund that mirrors the WilderHill Clean Energy Index of clean energy stocks, grew from \$60

million two weeks ago to more than \$100 million last week.

"I feel like I'm riding the tail of a tiger here," said Robert Wilder, president and founder of WilderShares, which maintains the WilderHill index. "Obviously, with the national implications for our national energy portrait, the result has been great inflows into our fund."

He said he has seen several days of 100 percent "buys" on the ETF, and no "sells."

Mr. Wilder said he feels badly that this national tragedy has become the catalyst for all the money flowing into the fund, but believes that clean energy technology could help prevent some of the problems from repeating in the future.

Attitude Change

Neal Elliott, industrial program director at the American Council for an Energy-Efficient Economy, said Katrina has snapped a market already strung "straight-jacket" tight by surging consumer demand and no supply options to switch to.

He said he hopes the hurricane will lead to at least one positive outcome—consumers taking energy efficiency more seriously.

"Consumers can either be forced to reduce economic and energy consumption activity as energy expenditures sap the economy, or they can be proactive and invest in energy efficiency and conservation," he said. "Because energy markets are so tight, it only takes modest changes to result in significant price reductions, thus avoiding the economic pain that would result from an economic slowdown."

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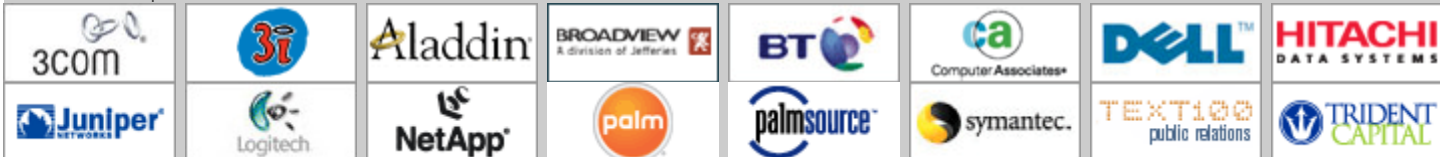
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