



Department of Energy
Washington, DC 20585

July 2, 2008

The Honorable Jack Kingston
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Kingston:

This is in response to your letter of May 28, 2008, which requests an estimate of what the impact on oil prices would be if an additional 1 million barrels per day of crude oil productive capacity were brought online today.

Your letter specifically asks that this estimate be based on the same methodology and set of circumstances and assumptions underlying my response to a question at a March 4, 2008, hearing of the Senate Energy and Natural Resources Committee regarding the impact on prices of adding oil to the Strategic Petroleum Reserve (SPR). At the hearing, I stated EIA staff had estimated that, holding other factors constant, an unanticipated generic fill program adding 100,000 barrels per day to the SPR over the first 10 months of 2008 could increase oil prices by about \$2 per barrel over that same period.

Applying the same methodology to the hypothetical scenario of bringing 1 million barrels of crude oil productive capacity online today, prices could be expected to decline by up to \$20 per barrel. This price drop reflects the significant price change needed to absorb increased supply in the short run. It should be noted that, while the immediate addition of 1 million barrels per day of unanticipated new productive capacity would significantly affect prices, an addition of this size typically involves years of planning and development activity. Also, it is assumed in the hypothetical scenario above that there would be no offsetting response in other OPEC or non-OPEC production or in other planned projects to add productive capacity and no changes in inventory levels.

I hope this information is of assistance to you. If you have further questions, please do not hesitate to contact me or your staff may contact Glen Sweetnam at 202-586-2188.

Sincerely,

A handwritten signature in blue ink, appearing to read "Guy F. Caruso".

Guy F. Caruso
Administrator
Energy Information Administration

