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"Promoting a sustainable economy and environment through education and accountability."

July 18, 2005

VIA FACSIMILE and regular mail

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From: Jack Saporito
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Subject: Grossly Erroneous Oil/Fuel Price Forecasts Used For U.S. Air Transportation Demand Projections Drive Excessive Air Transportation Demand Forecasts.

The American Working Group for National Policy, Inc. (AWGNP) and The Alliance of Residents Concerning O'Hare, Inc. (AReCO) hereby petition the Federal Aviation Administration (FAA) to produce a mid-year correction to your "FAA Aviation Forecast 2004", released in February 2005. This petition is based on what we believe to be gross errors in the forecast for aircraft fuel prices for the next decade. The impact of fuel prices is already, and will continue to be, much higher than forecasted and will substantially raise air transport operational costs and force much higher passenger ticket and freight prices, reducing demand below that which is forecasted.

The importance of a fast response in creating this mid-year correction is heightened by the fact that numerous, very expensive, United States airport expansion programs are in various stages of approval by the FAA and that these approvals will be based on the existing airport capacity projections, as derived from the demands developed in this "FAA Aviation Forecast 2004". Thus, the justifications for many of these airport expansion plans are seriously flawed and the FAA cannot go forward with any such approvals until this serious error is corrected.

AWGNP and AReCO therefore also petition the FAA to cease and desist any approvals of U.S. airport expansion programs until such mid-year forecast is completed and any affected airport expansion programs are appropriately adjusted for the expected substantial changes in demands.

Specifics:

It is clear that the FAA's fuel price forecasts (below) represent a total denial of reality in the issue of world oil supply and demand in the foreseeable future. The forecast is only six months old and is already totally out of sync with the actual current pricing situation.

Jet fuel price (daily gulf coast prices, per gallon) began 2004 at about $0.75 and ended the year at about $1.25, with a brief excursion to around $1.60 (due primarily to 2004 hurricane impacts on gulf supplies). But the upward trend could already be seen as early as the beginning of 2002 when the price was near $0.50/gal. [Note: These prices are, of course, much lower than the costs for passenger vehicles and trucks, due to their on-going exemption from numerous taxes.] Fuel prices bounced back up to $1.68 on April 5, 2005, returning to their apparent (3 year) trend line of about +44% year, which, of course, may not continue at that rate; however, this trend is so much greater than the FAA forecast, as to make their forecast useless.

It is understood that the FAA refers to the Office of Management and Budget (OMB), Congressional Budget Office (CBO) and others for base information. Yet the more knowledgeable agency, the Department of Energy, fully supports a position of on-going higher petroleum prices, as is seen in their most current forecast (see Attachment).

It appears ridiculous to assume that the air transportation industry will experience the forecasted $0.759/gal price average that is currently forecasted for 2005. Even if pricing stabilizes at current levels, the average will be above $1.50/gal, essentially <u>twice as high as forecasted</u>. And it is highly probable that it will instead experience a continuing rise, perhaps to as much as $2.25/gal by years end.

The continuing irrationally optimistic view by some that oil and fuel pricing will eventually return to even close to the currently projected levels must be rejected in the face of:

* Tremendous oil demand growth by the Chinese and other developing countries,
* Little to no expectations of future world oil supply growth from present levels, which are already only a percent or so above demand,
* Global warming impacts (now in consensus), further increasing fuel demands (e.g., for electricity, etc.) while negatively impacting supply (e.g., many more gulf coast oil source hurricane disruptions),
* Existing and future shortages of fuel refining capacities,
* The falling dollar (foreign oil producers will raise prices in inverse proportion),
* Out-of-control U.S. debt and trade imbalances, especially with the Chinese,

* The resulting probable purchase of U.S. (and/or foreign owned) major oil companies (witness the current Chinese bid for Unocal), in order to capture oil holdings as well as technologies,
* The failure of the "western world" to solve the Islamic terrorism issues.

Any forecast that expects the price of oil and fuel derivatives to be only 6% higher than 2004 -- 11 years from now, and actually cheaper than 2004 when discounted (0.67/gal vs. 0.80.9/gal, in 2003 dollars), must be discarded and immediately redone.

From the "FAA Aviation Forecast 2004":

"OMB projects that energy prices (as measured by the oil and gas deflator) will increase by 0.7 percent in 2004, decline by 10.0 percent in 2005, and then increase at an annual rate of 1.8 percent over the remainder of the forecast period. Over the entire 12-year period, the OMB forecast assumes that nominal energy prices will increase by only 0.7 percent annually. In real terms, OMB expects energy prices to decline at an annual rate of 1.5 percent over the 12-year period. CBO forecasts a 1.5 percent annual increase in nominal fuel prices and an annual decline of 0.9 percent in real prices. Global Insight projects nominal fuel prices to increase by 1.8 percent a year—a decline of 0.5 percent annually in real terms."

TABLE 16
U.S. LARGE AIR CARRIER FORECAST ASSUMPTIONS
JET FUEL PRICES

FISCAL YEAR	DOMESTIC CURRENT $ (Cents)	DOMESTIC FY 2003 $ (Cents)
Forecast		
2004	82.1	80.9
2005	75.9	73.7
2006	75.7	72.3
2007	76.6	71.6
2008	77.7	71.1
2009	79.0	70.5
2010	80.3	69.8
2011	81.6	69.3
2012	82.9	68.7
2013	84.3	68.1
2014	85.7	67.5
2015	87.1	67.0

ATTACHMENT

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U.S. Department of Energy

July 12th, 2005 Release (Next Update: August 9th, 2005)

2005 Summer Motor Fuels Outlook Update (Figure 1)

Retail regular-grade gasoline prices moved up from about $2.12 per gallon at the beginning of June to $2.33 on July11. Gasoline pump prices for the summer (April-September) are now projected to average $2.25 per gallon, 8 cents per gallon higher than last month's projection and about 35 cents per gallon above the year-ago level. Crude oil prices are expected to remain high enough to keep quarterly average gasoline prices above $2.20 per gallon through 2006. The projected average for retail diesel this summer is $2.33 per gallon, up about 56 cents per gallon from last summer. Nationally, annual average diesel fuel prices are expected to remain above regular gasoline prices through 2006. Currently, this pattern is evident in all major regions of the country.

Crude Oil and Petroleum Products (Figures 2 to 8)

The WTI crude oil price averaged over $56 per barrel in June and is now expected to average $59 per barrel for the third quarter of 2005, approximately $6 per barrel higher than projected in the previous Outlook and $15 per barrel above the year-ago level. Monthly average WTI prices are projected to remain above $55 per barrel for the rest of 2005 and 2006. Oil prices remain sensitive to any incremental oil market tightness. Imbalances (real or perceived) in light product markets could cause light crude oil prices to average above $60 per barrel.

Several factors are contributing to the expectation of continued high crude oil prices. First, worldwide petroleum demand growth is projected to remain robust during 2005 and 2006, although not as strong as in 2004. Worldwide oil demand is projected to grow at an annual average of about 2.1 million barrels per day in 2005 and 2006, representing a 2.5-percent annual average growth rate compared with 3.4 percent growth in 2004. Chinese demand growth, which averaged about 1 million barrels per day in 2004, is projected to be slower but still robust at an annual average of 600,000 barrels per day in 2005 and 2006. In addition, total projected oil demand for countries outside the Organization of Economic Cooperation and Development (OECD) is higher than in previous Outlooks because EIA has increased its estimate of historical (2003-2004) demand in the non-OECD countries by 200,000 barrels per day.

Second, production growth in countries outside of the Organization of Petroleum Exporting Countries (OPEC) is not expected to accommodate incremental worldwide demand growth. Non-OPEC supply is projected to grow by an annual average of 0.8 million barrels per day during 2005 and 2006, below the annual average growth rate seen in the 2002 through 2004 period.

Third, worldwide spare production capacity has recently diminished; in practice, only Saudi Arabia has any spare crude oil production capacity available, and the Saudis would need to steeply discount their heavy oil in order to market it effectively. Despite projected capacity additions in Saudi Arabia and other Persian Gulf countries in 2005 and 2006, world spare capacity could decline from 2004 levels over the next 2 years if world oil demand grows more rapidly than expected. Fourth, downstream sectors, such as refining and shipping, are expected to remain tight. Finally, geo-political risks, such as the continued insurgency in Iraq and possible problems in Nigeria and Venezuela, are expected to keep the level of uncertainty in world oil markets high.

Another factor that could influence the U.S. oil market over the next few months is the severity and location of hurricanes. The end of summer and the beginning of fall are the prime months for hurricane activity that can affect oil and natural gas production and refinery operations in the Gulf of Mexico region. With limited spare global crude oil production capacity and U.S. refinery utilization rates in the upper 90-percent range for much of the summer, oil prices are likely to react strongly to any disruption of or damage to petroleum infrastructure. While Hurricane Dennis was the immediate concern at the beginning of July, there are also likely to be other hurricanes that will threaten Gulf of Mexico oil facilities and increase the potential for temporary price spikes. How long prices remain elevated due to a particular storm, however, will ultimately be determined by the severity of damage to petroleum facilities.

High levels of production from OPEC members contributed to inventory builds in the OECD countries in the first half of this year, with these stocks moving towards the upper end of the 5-year historical range. However, OECD stocks have not grown in terms of days supply (the number of days that inventories would satisfy demand) because demand has grown rapidly as well. EIA’s forecast includes little additional growth in OECD commercial oil inventories over the next 2 years. U.S. crude oil inventories, now above the historical range, are much improved compared to this time last year. However, some of this improvement is expected to dissipate over the forecast period.

U.S. petroleum demand growth during the 2-year period is projected to average about 1.3 percent per year, down from the much stronger 3.5-percent increase seen in 2004. Motor gasoline demand growth is projected to average 130,000 barrels per day during the 2-year period, or 1.5 percent, per year, below the 1.9-percent growth in 2004.

Jet fuel demand is expected to rise by an average 2.9 percent per year, slightly below 2004's 3.3-percent growth. Distillate demand is projected to climb steadily by an average of 1.9 percent per year, well below the 3.3-percent growth recorded for 2004. Residual fuel oil demand, having increased by 12 percent last year, is projected to register an overall decline in deliveries during the forecast interval.