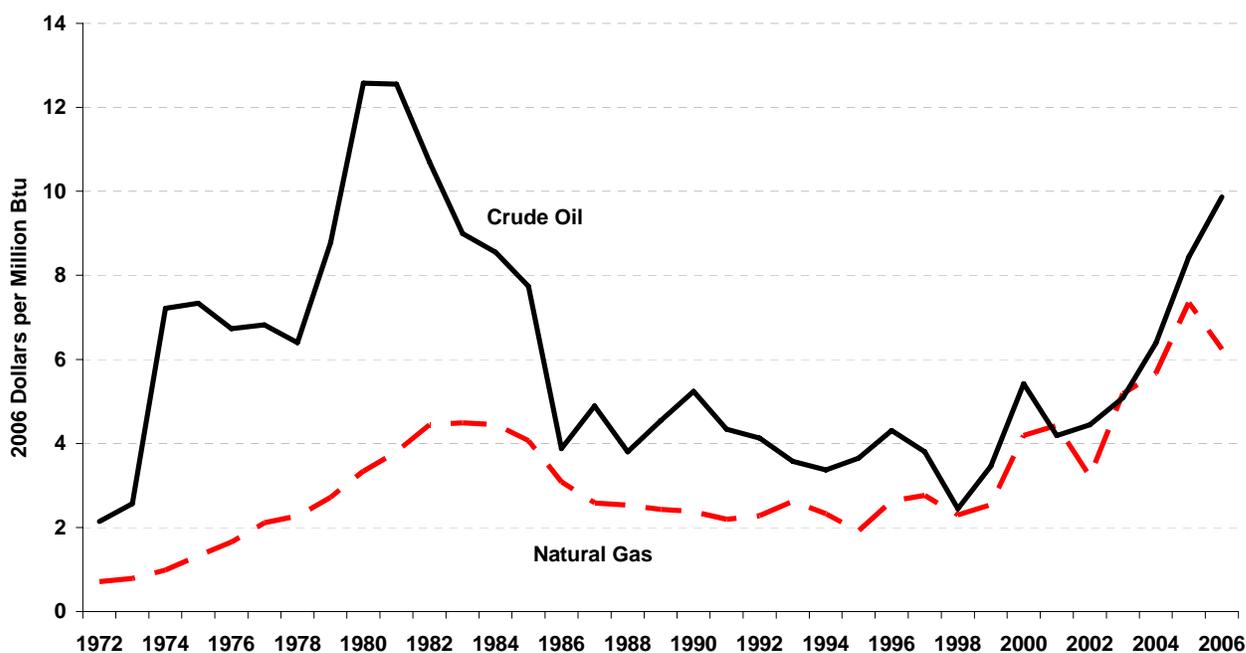


Overview of 2006 Petroleum and Natural Gas Markets

The Financial Reporting System (FRS) companies' financial results for 2006 were driven by substantially higher prices for crude oil and petroleum products, tempered by a decline in the price of natural gas. Crude oil prices (imported refiner acquisition cost) increased 17 percent from 2005 (in constant 2006 dollars),⁷⁹ to \$59.02 per barrel, the highest level since 1982.⁸⁰ Natural gas wellhead prices decreased 15 percent to \$6.42 per thousand cubic feet (mcf) in 2006.⁸¹ Together, these changes caused the difference between crude oil and natural gas prices (constant 2006 dollars) on a million British thermal unit (Btu) basis to exceed \$2 for the first time since 1992. A gap exceeding \$2 had been the norm from 1974 through 1992 (**Figure 30**).

Figure 30. Imported Refiner Acquisition Cost of Crude Oil and Natural Gas Wellhead Prices, 1972-2006



Source: Crude Oil Price: Energy Information Administration, *Monthly Energy Review*, DOE/EIA-0035 (2007/09) (Washington, DC, September 2007), Table 9.1; Natural Gas Price: Energy Information Administration, *Monthly Energy Review*, DOE/EIA-0035 (2007/09) (Washington, DC, September 2007), Table 9.11; Heat Content Factors: Energy Information Administration, *Monthly Energy Review*, DOE/EIA-0035 (2007/09) (Washington, DC, September 2007), Tables A2 and A4.

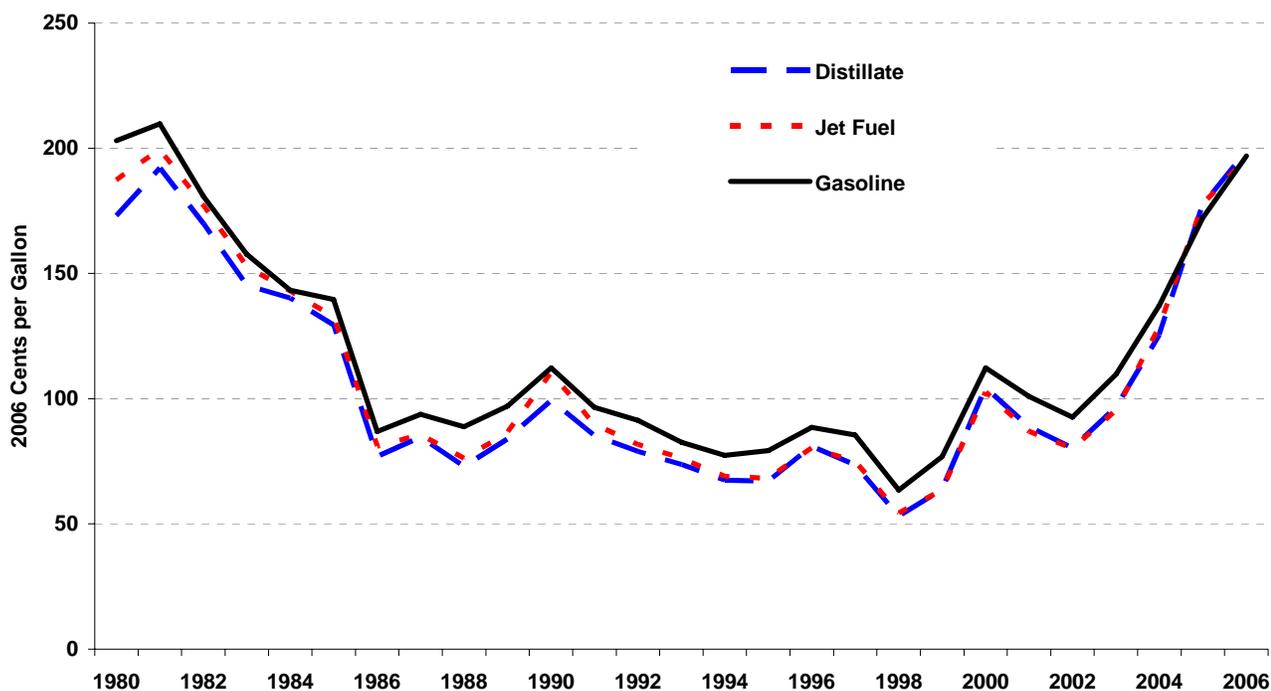
Gross refining margins increased in 2006 as petroleum product prices rose by more than the increase in crude oil prices. In 2006, distillate prices grew 12 percent to the highest level the Energy Information Administration (EIA) has ever reported (**Figure 31**). In 2005, gasoline and jet fuel prices had reached their highest levels since 1981 and repeated that feat in 2006 with increases of 14 and 10 percent, respectively. Gasoline, distillate, and jet fuel prices were tightly bunched in 2006, at \$1.97, \$1.99, and \$1.96 per gallon, respectively.

⁷⁹ Unless otherwise indicated, all dollar values and percentage changes in this report are based in constant 2006 dollars, adjusted using the Gross Domestic Product implicit price deflator.

⁸⁰ Energy Information Administration, *Monthly Energy Review*, DOE/EIA-0035 (2007/09) (Washington, DC, September 2006), Table 9.1.

⁸¹ Energy Information Administration, *Monthly Energy Review*, DOE/EIA-0035 (2007/09) (Washington, DC, September 2006), Table 9.11.

Figure 31. Refiner Prices of Petroleum Products for Resale, 1980-2006



Source: Energy Information Administration, Refiner Petroleum Product Prices by Sales Type, available on the Internet at http://tonto.eia.doe.gov/dnav/pet/xls/pet_pri_refoth_dcu_nus_a.xls (as of October 9, 2007).

World oil demand increased 0.8 million barrels per day (mmbd) (1.0 percent) from the 2005 level to 84.5 mmbd in 2006 (**Table 21**). The rate of increase has dropped each of the last two years (**Figure 32**). Supply includes the production of crude oil, natural gas liquids (NGL) and other liquids, and refinery processing gain and was 84.7 mmbd in 2006. Although supply was nearly unchanged from 2005, it remained higher than demand and resulted in an increase in petroleum inventories of 0.2 mmbd in 2006. Worldwide reserve additions replaced 96 percent of crude oil and NGL production in 2006. The reserve replacement rate for non-OPEC countries was 92 percent.⁸²

Petroleum product demand (represented by petroleum product supplied) dropped 0.6 percent in the United States in 2006 to 20.7 mmbd (**Table 22**). The first decline since 2001, it follows the previous year's slowdown in growth to 0.3 percent. This decline in overall petroleum product demand was led by a 231,000 barrel-per-day decline in consumption of residual fuel (**Figure 33**).

Domestic crude oil production fell 42,000 barrels per day (0.8 percent) in 2006 from 2005, while NGL production grew 18,000 barrels per day (1.1 percent). Net imports of petroleum decreased by 159,000 barrels per day (1.3 percent) in 2006, but this level was still sufficient to meet demand and to add 60,000 barrels per day to crude oil and petroleum product inventories.

Crude oil and NGL reserve additions in the United States in 2006 fell short of production for the year, so that the combined reserve replacement rate for crude oil and NGLs was 81 percent.⁸³

⁸² Calculated from reserves and production data in BP plc, *BP Statistical Review of World Energy* (June 2007), pp. 6, 8.

⁸³ Reserve additions include revisions and adjustments, net sales and acquisitions, and total discoveries. Energy Information Administration, *Advance Summary U.S. Crude Oil, Natural Gas, and Natural Gas Liquids Reserves 2006 Annual Report* (September 2007), p. 3.

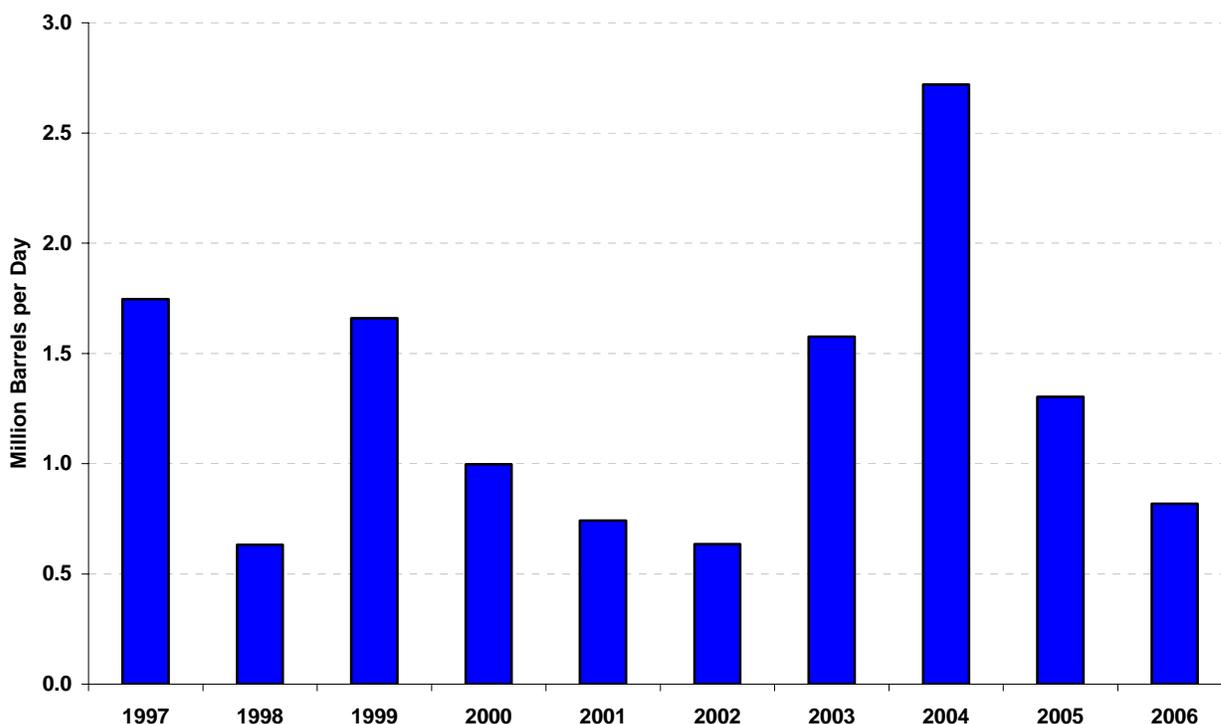
Table 21. World Petroleum Balance, 2005–2006
(Million Barrels per Day)

	Quarterly 2006				Annual	
	Q1	Q2	Q3	Q4	2005	2006
Demand	85.1	83.2	84.0	85.5	83.6	84.5
Supply	84.4	84.3	85.2	84.7	84.6	84.7
Supply from Inventories	0.7	-1.0	-1.2	0.8	-1.0	-0.2

Note: Supply from Inventories includes statistical discrepancy.

Source: Energy Information Administration, *International Petroleum Monthly* (August 2007), Table 2.1.

Figure 32. World Oil Consumption, Change from Previous Year, 1997-2006



Source: Energy Information Administration, *International Petroleum Monthly*, August 2007, Table 4.6, available on the Internet at <http://www.eia.doe.gov/ipm/> (as of October 9, 2007).

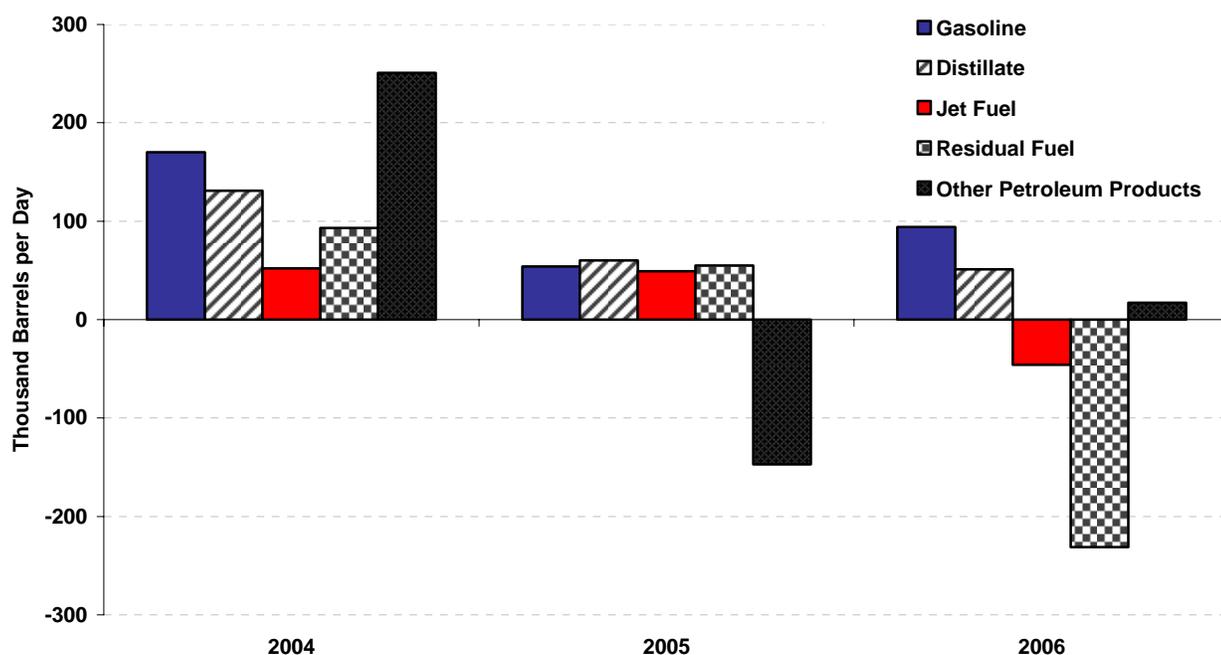
Table 22. U.S. Petroleum Balance, 2005–2006
(Million Barrels per Day)

	Quarterly 2006				Annual	
	Q1	Q2	Q3	Q4	2005	2006
Demand	20.4	20.5	20.8	20.7	20.8	20.7
Crude Oil Production	5.0	5.1	5.2	5.2	5.2	5.1
NGL Production	1.7	1.7	1.8	1.8	1.7	1.7
Other Inputs	1.5	1.5	1.6	1.4	1.5	1.5
Net Imports	12.1	12.5	12.9	11.6	12.5	12.4
Supply from Inventories	0.0	-0.4	-0.6	0.7	-0.1	-0.1

Note: Other Inputs includes adjustments and refinery processing gain.

Source: Calculated from Energy Information Administration, *Monthly Energy Review*, DOE-EIA-0035 (2007/09) (Washington, DC, September 2007), Tables 3.1a and 3.1b.

Figure 33. U. S. Petroleum Product Consumption, Change from Previous Year, 2004-2006



Source: Calculated from Energy Information Administration, Petroleum Product Supplied Data, available on the Internet at http://tonto.eia.doe.gov/dnav/pet/xls/pet_cons_psup_dc_nus_mbbldpd_a.xls (as of October 9, 2007).

U.S. refineries, recovering somewhat from hurricane damage sustained in 2005, increased output in 2006 by 175,000 barrels per day (1.0 percent) from 2005.⁸⁴ That output, combined with the decline in petroleum product demand, led to the 1.3-percent drop in net imports of petroleum mentioned earlier.

Natural gas demand in the United States fell 1.9 percent in 2006 to 21.8 trillion cubic feet (**Table 23**). Domestic natural gas production recovered from Hurricanes Katrina and Rita, increasing 2.5 percent in 2006 over 2005 production. Natural gas imports decreased by 4.1 percent, nearly bringing supply and demand into balance for the year.

Table 23. U.S. Natural Gas Balance, 2005–2006
(Trillion Cubic Feet)

	Quarterly 2006				Annual	
	Q1	Q2	Q3	Q4	2005	2006
Demand	6.5	4.8	5.0	5.5	22.2	21.8
Natural Gas Production	4.5	4.6	4.7	4.7	18.1	18.5
Other Inputs	0.1	0.3	0.1	-0.3	0.5	0.3
Net Imports	0.8	0.9	0.9	0.9	3.6	3.5
Supply from Inventories	0.9	-0.9	-0.7	0.3	0.1	-0.4

Note: Other Inputs includes supplemental gaseous fuels and the balancing item.

Source: Energy Information Administration, *Monthly Energy Review*, DOE-EIA-0035 (2007/09) (Washington, DC, September 2007), Table 4.1.

⁸⁴ Calculated from Energy Information Administration, U.S. Refinery and Blender Net Production Data, available on the Internet at http://tonto.eia.doe.gov/dnav/pet/xls/pet_pnp_refp_dc_nus_mbbldpd_a.xls (as of October 10, 2007).