

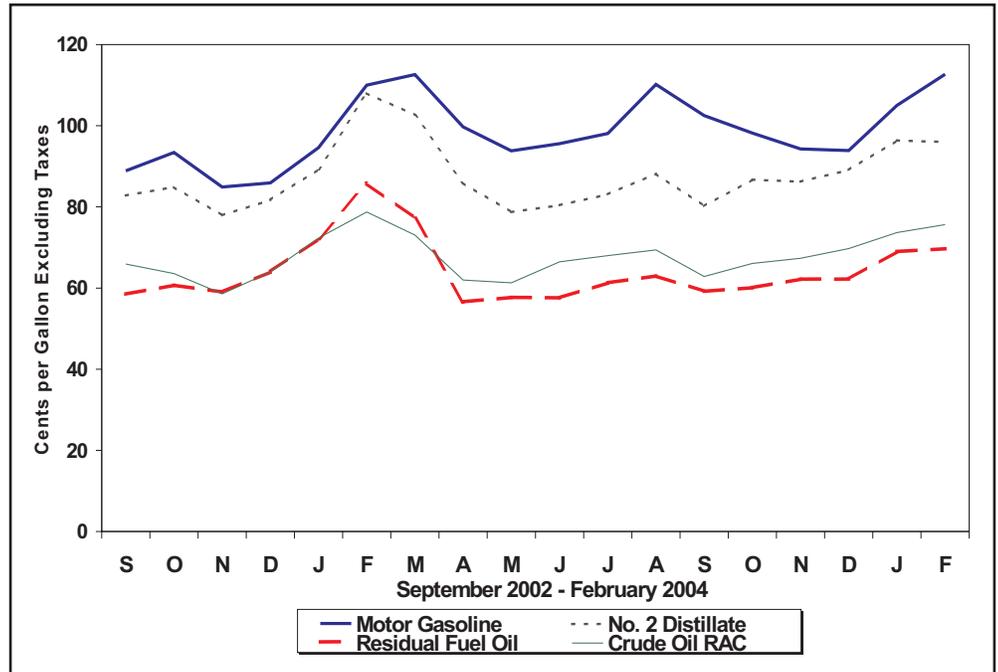
Highlights

After declining during the latter part of January, prices for key world crude oil streams climbed firmly during February. Continued robust demand from Asian markets, tight gasoline inventories in the United States, a vote by the Organization of Petroleum Exporting Countries (OPEC) to cut production levels, and political unrest in Venezuela all contributed to higher crude oil prices. Prices were on the decline at the beginning of February, continuing the downward trend begun in January by a more favorable view of U.S. crude oil stocks and the prevailing assumption that OPEC would not change wellhead production quotas during its coming February 10 meeting. However, in a surprising move, the group voted to cut production by 1.0 million barrels to 23.5 million barrels per day, beginning April 1, 2004. The reasoning behind the cut was to maintain recent price levels by reducing supply during the second quarter of the year, thereby avoiding a surplus when demand typically falls to its lowest point. The announcement of the decision also included a statement about controlling quota overruns, which have occurred frequently in the past. Representatives from Mexico, Angola, and Oman also attended the meeting. An outbreak of civil unrest in Venezuela gave prices additional impetus late in the month. A rejection of a recall vote against President Hugo Chavez set off anti-government protests and sparked fears of a repeat of the general labor strike that severely reduced crude oil production and exports in winter 2002-2003.

Along with crude oil prices remaining at high levels in international markets, persistent low inventories of crude oil and refined products in the United States continued to unsettle U.S. market prices during February.

At the national level, stocks of crude oil and gasoline remained below the average range (based on five years of data) throughout the month. With demand for gasoline running firmly above last year at this time, any delays or interruptions to production helped send product prices higher. Turnarounds and unexpected outages at a number of refineries across the country, therefore, affected product prices across regional markets. Disruptions to refinery operations particularly affected gasoline prices on the West Coast. Spot market prices in California were quite volatile thanks to a combination of refinery troubles during the transition period to producing summer-grade gasoline. The Los Angeles spot market price for California Reformulated Gasoline Blendstocks for Oxygenate Blending (CARBOB) began February at \$1.125 per gallon, but jumped to \$1.215 by the end of the day due to rumors of a problem at a refining facility in El Segundo. By February 19, the spot price reached \$1.575 per gallon follow-

Figure HL1. Crude Oil and Petroleum Product Wholesale Prices



Sources: Energy Information Administration. Crude oil refiner acquisition cost: Form EIA-14, "Refiners' Monthly Cost Report"; petroleum product prices: Form EIA-782A, "Refiners' /Gas Plant Operators' Monthly Petroleum Product Sales Report."

Table HL1. U.S. Refiner Prices and Volumes of Petroleum Products

(Prices: Cents per Gallon Excluding Taxes, Volumes: Million Gallons per Day)

Products	Sales to End Users						Sales for Resale					
	February 2004		January 2004		February 2003		February 2004		January 2004		February 2003	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	125.6	58.3	117.3	57.1	122.1	60.9	112.7	293.6	105.0	286.8	110.0	288.5
Conventional	120.2	32.3	114.6	30.7	119.5	34.2	108.4	192.8	102.5	188.6	106.8	186.5
Regular	117.8	25.7	112.1	24.3	117.0	26.9	106.9	162.8	101.0	159.2	105.4	156.0
Midgrade	126.4	3.7	120.9	3.6	125.5	4.2	112.8	10.8	107.2	10.2	111.4	11.0
Premium	134.1	2.9	128.4	2.8	132.7	3.1	118.4	19.1	112.4	19.2	115.3	19.6
Oxygenated	127.0	3.2	119.6	3.6	124.2	3.4	114.5	10.5	106.9	11.0	113.1	10.9
Regular	124.9	2.5	116.9	2.7	121.6	2.7	113.0	8.4	105.6	8.7	111.8	8.6
Midgrade	130.0	0.5	124.2	0.5	129.9	0.5	115.6	1.1	108.1	1.2	113.5	1.3
Premium	140.5	0.3	134.1	0.3	140.5	0.3	125.0	1.0	116.3	1.1	123.1	1.0
Reformulated	133.0	22.8	120.5	22.8	125.6	23.2	121.6	90.3	110.2	87.2	116.2	91.1
Regular	129.2	16.6	116.2	16.4	122.0	17.2	119.1	70.3	107.6	67.5	113.6	69.8
Midgrade	139.2	2.8	127.9	2.9	132.6	3.0	127.4	5.6	115.4	5.5	122.3	6.4
Premium	146.6	3.4	134.8	3.5	138.7	3.1	131.7	14.4	120.7	14.2	125.4	14.9
Aviation Gasoline	W	W	W	W	W	W	143.6	0.4	135.3	0.4	130.2	0.4
Kerosene-Type Jet Fuel	101.3	46.8	99.8	45.3	101.8	45.1	100.1	11.5	99.7	11.6	102.8	13.0
Propane (Consumer Grade)	88.2	3.0	NA	2.7	69.6	1.9	70.2	46.8	71.7	55.2	72.8	44.5
Kerosene	135.3	0.3	132.5	0.4	137.4	0.3	107.2	4.6	110.9	4.7	118.6	3.8
No. 1 Distillate	109.2	0.5	107.3	0.6	109.3	0.4	107.8	2.5	107.2	3.4	117.4	2.5
No. 2 Distillate	102.6	18.2	100.3	18.7	110.8	23.3	96.0	131.7	96.4	130.6	108.0	133.0
No. 2 Fuel Oil	99.4	3.1	102.5	3.2	113.5	4.0	93.0	26.1	97.0	27.5	107.8	33.7
No. 2 Diesel Fuel	103.2	15.1	99.9	15.5	110.2	19.3	96.8	105.6	96.2	103.1	108.1	99.3
Low Sulfur	105.5	10.4	101.5	10.8	112.2	13.0	98.0	84.3	96.8	82.6	108.6	86.3
High Sulfur	98.3	4.7	96.2	4.7	106.1	6.3	92.1	21.3	93.8	20.5	105.0	13.0
No. 4 Fuel^a	91.4	0.5	W	W	W	W	95.1	0.1	96.0	0.1	88.5	0.2
Residual Fuel Oil	70.3	11.2	71.6	10.9	83.8	13.0	69.7	7.4	69.0	7.7	85.8	8.3
Sulfur Content not > 1 %	80.7	4.2	84.4	3.7	95.6	4.7	76.3	4.6	75.3	5.0	93.9	4.7
Sulfur Content > 1 %	64.0	7.0	64.9	7.2	77.0	8.2	59.4	2.9	57.6	2.7	74.8	3.5

NA = Not available.

W = Withheld to avoid disclosure of individual company data.

^a Includes No. 4 fuel oil and No. 4 diesel fuel.

Notes: Motor gasoline averages and totals prior to October 1993 include leaded gasoline.

Notes: Values shown for the current month are preliminary. Values shown for previous months are revised. Data are final upon publication in the *Petroleum Marketing Annual*.

Source: Energy Information Administration Form EIA-782A, "Refiners'/Gas Plant Operators' Monthly Petroleum Product Sales Report."

ing news of problems at two other refineries. While the changes were not as extreme, the refinery outages also influenced CARB diesel prices, with the Los Angeles spot market price reaching \$1.265 on February 27. Oil prices were also affected by a ship accident in the Southwest Pass channel (at the mouth of the Mississippi River) that delayed the delivery of cargos for nearly a week in late-February. The channel was closed following the accident on February 21 and partially reopened on February 25. The new federal specification for reduced-sulfur gasoline continued to make an impression on prices, since gasoline imported from foreign sources typically does not meet the new standards. In the past, U. S. imports of gasoline have typically run between 600,000 and 1 million barrels per

day. In February 2003, gasoline imports averaged 718,000 barrels per day while a four-week average as of February 27, 2004 show imports running at 681,000 barrels per day. State-level mandates requiring ethanol as the oxygenate blending component in reformulated gasoline have also underpinned higher prices, since markets are still adjusting to the higher demand for ethanol resulting from the new regulations. Without appreciable changes to current fundamental market conditions, petroleum product prices could remain at the current robust levels.

Additional February market and sales activity for crude oil and the principal petroleum products are summarized in the following sections.

Crude Oil

Influenced by a reported increase in crude oil stocks at the end of January, the daily spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma began February on the decline. After opening at \$33.16 per barrel, the price moved to the month's low of \$32.49 per barrel on February 6. The market climate changed during the second week of the month, following the announcement of the OPEC decision to cut production. The price rose steadily from that point forward, finding additional support from other political and fundamental factors along the way. After reaching the high of \$37.28 per barrel on February 25, the price closed the month at \$36.08 per barrel, \$2.92 per barrel higher than where it began the month.

- February monthly average crude oil prices show modest changes from January levels. The average domestic crude oil first purchase price increased 86 cents (2.8 percent), to \$31.21 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil was essentially unchanged, dropping 8 cents (0.3 percent), to \$28.02 per barrel. The average landed cost of foreign crude oil fell 23 cents (0.8 percent), to \$30.40 per barrel.
- The average refiner acquisition cost for domestic crude oil climbed \$1.19 (3.7 percent), to \$33.24 per barrel. The average cost of imported crude oil to U.S. refiners increased 55 cents (1.8 percent), to \$30.80 per barrel, while the composite refiner acquisition cost for crude oil rose 81 cents (2.6 percent), to \$31.76 per barrel.

Petroleum Products

Motor Gasoline

Below-average supply levels underpinned the daily spot price for regular gasoline at New York Harbor during February. After opening the month at 99.1 cents per gallon, the price moved around the

\$1.00-per-barrel mark during much of the first half of February, marking its low of 98.2 cents per gallon on February 6. By mid-month, unexpected refinery outages in addition to ongoing scheduled maintenance bolstered supply concerns, leading the price higher. The peak value for the month was struck on February 18 when the price reached \$1.098 per gallon. With supply worries dominating the market, the price remained well above \$1.00 per gallon for the rest of the month. Closing at \$1.089 per gallon, the price was nearly 10 cents higher than where it began February.

- National average gasoline prices increased again in February. The average price for retail sales of motor gasoline by refiners rose 8.3 cents to \$1.256 per gallon, while the average wholesale price increased 7.7 cents to \$1.127 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets climbed 7.2 cents to \$1.241 per gallon. The average wholesale price for gasoline rose 7.0 cents to \$1.125 per gallon. The average dealer tank wagon (DTW) price jumped 8.1 cents to \$1.179 per gallon, while the average rack price increased 6.7 cents to \$1.111 per gallon. The average price for bulk sales rose 6.8 cents to \$1.023 cents per gallon. The spread between reformulated gasoline and conventional gasoline prices widened significantly in February, with differences rising to 11.3 cents at retail and 11.5 cents at wholesale. Oxygenated gasoline prices were 5.2 cents higher than conventional gasoline prices at retail, and 4.2 cents more at wholesale.
- Sales of motor gasoline by refiners increased in February. Total sales climbed 8.0 million gallons per day (2.3 percent), to an average of 351.9 million gallons per day. Retail sales rose 1.2 million gallons per day (2.1 percent), while wholesales increased 6.8 million gallons per day (2.4 percent). Rack sales made up 68.7 percent of wholesales, while DTW and bulk sales accounted for 19.3 percent and 12.0 percent, respectively. RFG explained 32.1 percent of total motor gasoline sales, while oxygenated gasoline made up 3.9 percent of sales.

No. 2 Distillate

The trend of the daily spot price for No. 2 fuel oil at New York Harbor during February reflected the perception of market watchers that supplies were adequate to meet demand through the end of winter. After opening at 93.7 cents per gallon, the price dropped firmly during the first week of the month, reaching its low of 86.8 cents per gallon on February 6. The price

was more volatile during coming weeks, alternately supported by the general upward trend of prices in the complex and periods of cold weather in the Northeast, and slipping under pressure from the perception of adequate supplies and lower demand. The price rose again during the final days of the month, closing February at its highest level, 96.3 cents per gallon.

- Monthly average prices for No. 2 distillates show modest changes in February. The national average residential sales price for No. 2 distillate increased 1.6 cents to \$1.433 per gallon. The average wholesale price dropped 0.4 cent to 96.7 cents per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets rose 2.6 cents, while the average No. 2 diesel fuel wholesale price inched up 0.7 cent. The margin between low- and high-sulfur diesel fuel prices was 3.4 cents at retail and 5.8 cents at wholesale.
- Refiner sales of No. 2 distillates rose overall in February. Total sales increased 6.0 million gallons per day (4.0 percent), to 155.3 million gallons per day. Sales of No. 2 fuel oil fell, dropping 400,000 gallons per day (1.3 percent), while sales of No. 2 diesel fuel climbed 6.4 million gallons per day (5.4 percent). Low-sulfur diesel fuel accounted for 78.4 percent of all refiner diesel fuel sales, and 63.1 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Residual fuel oil prices show a mixed bag of changes in February. Refiner prices for low-sulfur residual fuel oil fell 3.7 cents to 80.7 cents per gallon at retail, but rose 1.0 cent to 76.3 cents per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil declined 0.9 cent to 64.0 cents per gallon, while the wholesale price rose 1.8 cents to 59.4 cents per gallon. Including data reported by a sample of

residual fuel oil marketers, the average price for low-sulfur residual fuel oil decreased 3.8 cents to 77.2 cents per gallon at retail, but increased 0.5 cent to 74.8 cents per gallon at wholesale. The retail price for high-sulfur residual fuel oil declined 0.9 cent to 62.9 cents per gallon, while the wholesale price fell 2.6 cents to 60.3 cents per gallon.

- Refiner residual fuel sales in February saw little change from January levels. Total sales remained flat at 18.6 million gallons per day. Low-sulfur residual fuel oil sales rose 100,000 gallons per day (1.1 percent), while high-sulfur residual fuel oil sales experienced virtually no change.

Other Products

- February monthly average prices for products included in this section show a range of changes. The refiner retail price for propane fell 7.0, while the wholesale price declined 1.5 cents per gallon. Including data from a sample of propane marketers, the average residential propane price rose 2.7 cents per gallon. The average retail price increased 0.9 cent per gallon, while the average wholesale propane price dropped 1.0 cent per gallon. Prices for kerosene-type jet fuel and No. 1 distillate rose at both levels, while kerosene prices increased at retail, but fell at wholesale. The wholesale price for aviation gasoline rose, while the No. 4 distillate wholesale price fell.
- Refiner sales of these products were varied in February. Sales of kerosene-type jet fuel increased at both the retail and wholesale levels, while sales of No. 1 distillate fell at both levels. Propane sales rose at retail, but declined at wholesale, while sales of kerosene did just the opposite. Sales of aviation gasoline increased at wholesale, while No. 4 distillate sales fell in the same category.