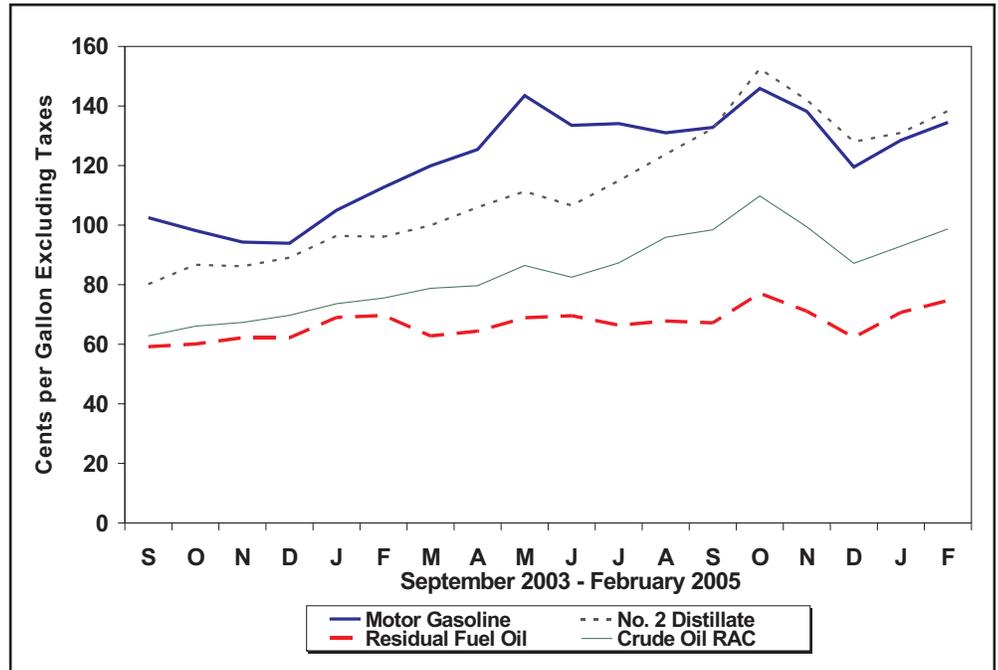


# Highlights

Robust demand and cold weather accompanied by political factors led international crude oil prices higher in February. Initially, prices for benchmark streams showed modest declines due to rising stocks in the U.S., the world's largest consumer of oil products. At the same time, members of the Organization of Petroleum Exporting Countries (OPEC) suggested the group would not consider a cut in production until their next meeting in Mid-March, which helped to dampen prices. However, the direction of prices changed during the second week of the month. The International Energy Agency (IEA) released a report on February 10, wherein it predicted an increase in the global demand for crude oil in 2005, while lowering an earlier calculation for growth in oil production from non-OPEC sources. Much colder temperatures in Northern Hemisphere markets also encouraged rising prices. Prices were also underpinned by talk of OPEC cutting output before the group's next meeting, in contrast to words heard earlier in the month. More specifically, despite the previous suggestions, many in the group maintained that a significant decrease in prices or rise in stocks would lead to a cut in production. Later in the month, an increase in political tensions between the United States and Iran, a major oil producing country, and another attack on an Iraqi oil export pipeline bolstered higher crude oil prices. By the end of the month rising demand from U.S., European, and Asian sources following a spate of cold weather in those regions, in addition to production problems in Canada and the Gulf of Mexico had helped spur crude oil prices higher throughout international markets.

In U.S. markets, crude oil and refined product prices began February on the decline. Warm temperatures in the Northeast early in the month dampened demand for heating fuel, leading prices lower. At the same time, gasoline prices declined in many regional markets due to robust inventories, production rates, and imports. More specifically, gasoline stocks increased 2.5 percent from January levels, with production rising but demand for the product remaining flat. However, prices for all of the major products began to increase during the second week of the month. In addition to the forecasts for colder weather, a drop in runs by refineries on the East Coast helped to boost finished product prices. Crude oil prices were affected by the release of the IEA report and were later influenced by ongoing production problems in Canadian oil sands fields, new disruptions to production in the Gulf of Mexico and rising demand from refiners. Remarkably, the spot price for West Texas Intermediate (WTI) crude oil at Cushing,

**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 2005		January 2005		February 2004		February 2005		January 2005		February 2004	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
<b>Motor Gasoline</b> .....	147.1	59.2	139.8	55.7	125.6	58.3	134.5	318.3	128.5	302.5	112.7	293.8
<b>Conventional</b> .....	143.5	32.9	137.3	30.8	120.2	32.3	131.8	211.0	126.9	198.9	108.4	193.1
Regular .....	141.0	26.9	134.8	25.2	117.8	25.7	130.5	181.5	125.6	170.8	106.9	163.1
Midgrade .....	150.2	3.3	144.3	3.2	126.4	3.7	136.8	11.0	132.0	10.2	112.8	10.8
Premium .....	159.8	2.6	153.9	2.5	134.1	2.9	141.6	18.4	136.6	17.9	118.4	19.2
<b>Oxygenated</b> .....	148.1	3.6	140.2	3.5	127.0	3.2	136.9	11.6	126.9	11.8	114.4	10.5
Regular .....	145.6	2.8	137.4	2.7	124.9	2.5	135.3	9.4	125.3	9.5	113.0	8.4
Midgrade .....	153.4	0.5	145.9	0.5	130.0	0.5	138.5	1.1	130.0	1.1	115.6	1.1
Premium .....	162.0	0.3	156.2	0.3	140.5	0.3	149.3	1.1	137.1	1.2	124.9	1.0
<b>Reformulated</b> .....	152.1	22.7	143.3	21.4	133.0	22.8	139.9	95.6	132.2	91.7	121.7	90.2
Regular .....	148.3	16.9	139.3	15.8	129.2	16.6	137.7	75.9	129.9	72.7	119.1	70.2
Midgrade .....	158.8	2.8	150.2	2.7	139.2	2.8	145.4	4.8	137.2	4.6	127.5	5.6
Premium .....	166.9	3.1	158.8	3.0	146.6	3.4	149.7	14.9	142.0	14.4	131.8	14.4
<b>Aviation Gasoline</b> .....	W	W	W	W	W	W	170.6	0.4	159.5	0.4	143.6	0.4
<b>Kerosene-Type Jet Fuel</b> .....	137.5	45.4	131.2	42.5	101.3	46.8	136.6	14.3	131.7	13.7	100.0	11.6
<b>Propane (Consumer Grade)</b> .....	103.3	3.0	105.2	2.8	87.7	3.1	79.0	45.7	79.5	49.6	70.1	46.1
<b>Kerosene</b> .....	152.7	0.5	153.2	0.5	93.9	1.4	145.1	3.3	145.6	3.4	114.6	3.5
<b>No. 1 Distillate</b> .....	152.3	0.4	143.9	0.4	109.2	0.5	151.0	2.3	142.8	3.7	108.0	2.5
<b>No. 2 Distillate</b> .....	142.7	21.1	134.7	19.7	102.6	17.9	138.3	140.7	131.0	131.5	96.1	131.4
No. 2 Fuel Oil .....	141.4	2.7	138.7	2.6	99.4	3.1	134.1	26.7	131.1	26.0	93.0	26.0
No. 2 Diesel Fuel .....	142.9	18.4	134.2	17.1	103.3	14.9	139.3	114.0	131.0	105.6	96.8	105.3
Low Sulfur .....	145.0	11.9	136.9	11.0	105.7	10.2	140.1	95.3	131.4	88.4	97.9	85.7
High Sulfur .....	138.9	6.5	129.2	6.1	98.1	4.7	135.0	18.7	129.4	17.2	92.2	19.7
<b>No. 4 Fuel<sup>a</sup></b> .....	W	W	W	W	91.4	0.5	W	W	W	W	95.1	0.1
<b>Residual Fuel Oil</b> .....	81.4	11.0	77.3	12.2	70.3	11.2	74.7	7.7	70.7	6.7	69.7	7.4
Sulfur Content not > 1 % .....	88.1	5.0	84.6	5.6	80.7	4.2	85.7	3.8	79.5	3.6	76.3	4.6
Sulfur Content > 1 % .....	75.9	6.1	71.2	6.6	64.0	7.0	63.9	3.9	60.4	3.1	59.3	2.9

W = Withheld to avoid disclosure of individual company data.

<sup>a</sup> 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."

Oklahoma exceeded the benchmark New York Harbor spot market price for regular gasoline for a few days at the end of February. In West Coast markets, rumors of problems at California refineries pushed gasoline prices higher, and in the Pacific Northwest, turn-arounds at several refineries coupled with robust demand for diesel fuel spurred prices significantly higher. Vigorous demand for diesel fuel in central region markets also sent prices substantially higher. In Chicago, the spot market price for low-sulfur diesel fuel began the month at \$1.318 cents per gallon and closed February at \$1.544 per gallon, marking a 22.6 cents increase. At the national level, distillate stocks registered declines for five weeks in a row by the end of February thanks to vigorous demand from the transportation sector along with more cold weather. In large

part, distillates prices throughout regional markets followed the inventory declines, increasing significantly as the month progressed. While gasoline prices were comparatively lackluster, February is typically a time of low demand for the product, market watchers expect prices to pick up as the transition to lower-RVP, summer-grade gasoline approaches. A review of monthly average spot market prices for gasoline and No. 2 heating oil at New York Harbor help to describe the general trends seen in U.S. petroleum products markets during February. The average price for No. 2 fuel oil in January 2005 was \$1.316 per gallon compared with \$1.343 per gallon in February 2005. The contrast between year-to-year prices was much more distinct with the average price in February 2004 at 90.9 cents per gallon, a difference of 43.4 cents per gallon and a 47.7 percent

## Petroleum Products

increase. For conventional regular gasoline, the January 2005 price was \$1.240 per gallon, compared with \$1.224 per gallon in February of this year. Like that seen in No. 2 fuel oil prices, the year-to-year difference is more dramatic: the monthly average price in February 2004 was \$1.047 per gallon, an increase of 17.7 cents or 16.9 percent rise in level.

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

### Crude Oil

At Cushing, Oklahoma the daily spot price for WTI crude oil increased during February. After opening at \$48.25 per barrel, the price experienced a period of moderate decline ending with the month's low of \$45.35 per barrel on February 7. The decrease was mainly due to members of OPEC saying the group would not consider production cuts until its mid-March meeting. Following the low, however, the price began to climb steadily during the coming weeks as a variety of factors influenced the price. After reaching the high of \$52.50 per barrel on February 25, its highest level since the fall 2004, the price closed the month at 51.75 per barrel, \$3.50 above its opening level.

- February monthly average crude oil prices increased in all sales categories. The average domestic crude oil first purchase price rose \$1.75 (4.4 percent) to \$41.93 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil underwent the largest increase, rising \$2.79 (7.9 percent), to \$38.28 per barrel. The average landed cost of foreign crude oil rose 87.0 cents (2.3 percent), to \$39.06 per barrel.
- The average refiner acquisition cost for domestic crude oil increased \$1.86 (4.4 percent), to \$43.89 per barrel. The average cost of imported crude oil to U.S. refiners climbed \$2.58 (6.9 percent), to \$40.15 per barrel, while the composite refiner acquisition cost for crude oil increased \$2.43 (6.2 percent), to \$41.46 per barrel.

### Motor Gasoline

Thanks in large part to continuing reports of adequate inventories and moderate demand, the daily spot price at New York Harbor for regular gasoline showed the least volatility of the major product prices in the complex during February. After opening at its highest point for the month, \$1.284 per gallon, the price moved along a firmly downward path during the first week of the month. It reached its low of \$1.152 per gallon on February 7, due to reports of robust supply levels and refinery production. While it rose in the days following that point, adopting the upward trend set by other products' prices, the price for gasoline languished in comparison to them for much of the remainder of the month. Closing the month at \$1.247 per gallon, the price was more than five cents lower than where it began February.

- Monthly average gasoline prices climbed firmly in February. The average price for retail sales of motor gasoline by refiners rose 7.3 cents to \$1.471 per gallon, while the average wholesale price increased 6.0 cents to \$1.345 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets jumped 7.4 cents to \$1.476 per gallon. The average wholesale price for gasoline increased 5.9 cents to \$1.349 per gallon. The average dealer tank wagon (DTW) price climbed 7.1 cents to \$1.409 per gallon, while the average rack price rose 5.1 cents to \$1.341 per gallon. The average bulk sale price increased 6.9 cents to \$1.263 per gallon. Reformulated gasoline prices were 7.4 cents higher than conventional gasoline prices at retail, and 7.0 cents more at wholesale. Oxygenated gasoline prices were 3.8 cents above conventional gasoline prices at retail, and 5.6 cents more at wholesale.
- In a reversal of last month's trend, refiner sales of motor gasoline increased in February. Total sales climbed 19.3 million gallons per day (5.4 percent) to an average of 377.5 million gallons per day. Retail sales grew 3.5 million gallons per day (6.3 percent), while wholesales rose 15.8 million gallons per day (5.2 percent). Rack sales accounted for 67.5 percent of wholesales, while DTW and bulk sales made up 16.9 percent and 15.6 percent, respectively. Reformulated gasoline explained 31.3 percent of total motor gasoline sales, while oxygenated gasoline defined 4.0 percent of sales.

## *No. 2 Distillate*

The daily spot price for No. 2 heating oil at New York Harbor was volatile during February. Opening at \$1.331 per gallon, the price continued to move on a declining path that had originated in late-January, and reached the month's low of \$1.237 per gallon on February 7. The decline was principally in response to warm temperatures in the Northeast which dampened demand for the product. However, the price began to build again during the second week of the month following forecasts for cold weather for the remainder of the winter season. It continued to rise firmly particularly during the final week of the month, as distillate stocks recorded decreases for the fifth consecutive week. Closing at \$1.495 per gallon, also its highest point for the month, the price was more than sixteen cents higher than where it began February.

- Monthly average prices for No. 2 distillates increased in all sales categories in February. The national average residential sales price rose 3.7 cents to \$1.844 per gallon. The average wholesale price climbed 6.6 cents to \$1.390 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets rose 5.7 cents, while the average wholesale price for No. 2 diesel fuel increased 8.2 cents. The difference between low- and high-sulfur diesel fuel prices was 4.9 cents at retail and 4.4 cents at wholesale.
- Sales of No. 2 distillates by refiners rose in February. Total sales increased 10.5 million gallons per day (6.9 percent), to 161.8 million gallons per day. Sales of No. 2 fuel oil rose 800,000 gallons per day (2.8 percent), while sales of No. 2 diesel fuel increased 9.7 million gallons per day (7.9 percent). Low-sulfur diesel fuel accounted for 81.0 percent of all refiner diesel fuel sales, and 66.3 percent of all refiner No. 2 distillate sales.

## *Residual Fuel Oil*

- Monthly average residual fuel oil prices climbed firmly in February. Refiner prices for low-sulfur re-

sidual fuel oil rose 3.5 cents to 88.1 cents per gallon at retail, and 6.2 cents to 85.7 cents per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil increased 4.7 cents to 75.9 cents per gallon, while the wholesale price rose 3.5 cents, to 63.9 cents per gallon. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil increased 2.3 cents to 88.9 cents per gallon at retail, and 6.2 cents to 84.8 cents per gallon at wholesale. The retail price for high-sulfur residual fuel oil increased 4.3 cents to 75.5 cents per gallon, while the wholesale price rose 0.9 cent to 69.3 cents per gallon.

- Refiner sales of residual fuel oil fell in most categories in February. Total sales declined 200,000 gallons per day (1.1 percent). Low-sulfur residual fuel oil sales dropped 400,000 gallons per day (4.3 percent), while high-sulfur residual fuel oil sales increased 300,000 gallons per day (3.1 percent).

## *Other Products*

- The direction of monthly average prices for products included in this section varied in February. Refiner prices for propane dropped 1.9 cents per gallon at retail, and 0.5 cent per gallon at wholesale. Including data from a sample of propane marketers, the average residential propane price increased 2.5 cents per gallon, while the average retail propane price inched up 0.7 cent per gallon. The average wholesale propane price fell 0.9 cent per gallon. Prices for kerosene-type jet fuel and No. 1 distillate rose at retail and wholesale, while kerosene prices fell slightly at both levels. The price for aviation gasoline increased at wholesale.
- Refiner sales of these products were mixed in February. Sales of propane increased at retail, but fell at wholesale. Sales of kerosene and No. 1 distillate declined at both levels, while sales of kerosene-type jet fuel did just the opposite. February sales of aviation gasoline were flat at wholesale.