

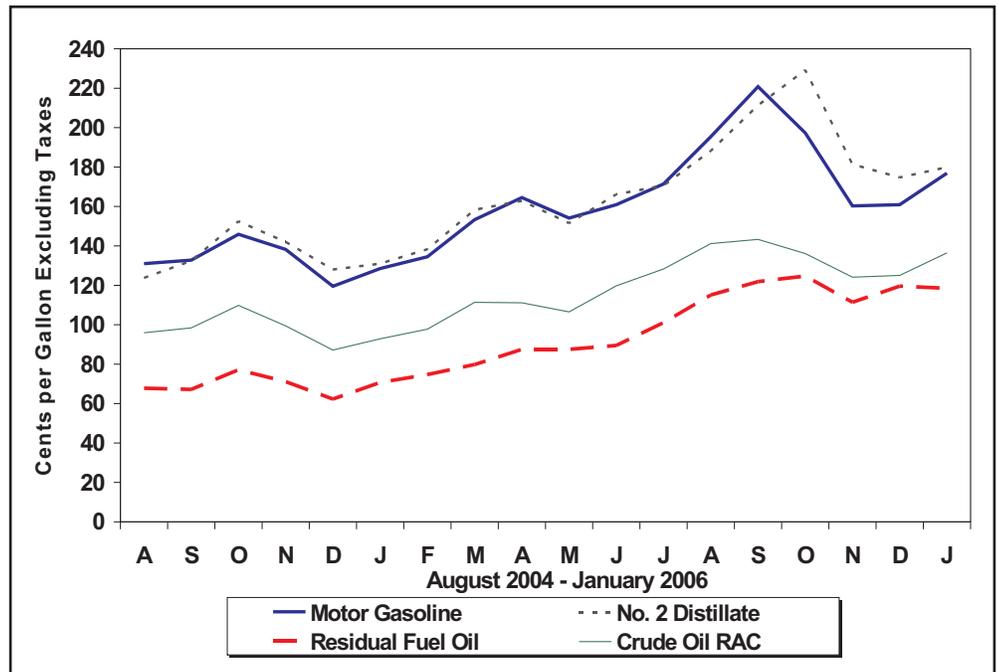
Highlights

Under pressure from a variety of factors, international crude oil prices rose firmly in January. Severe winter weather in parts of Europe and Asia, stock levels in various markets, and political issues all provided impetus for the increase in prices. In addition to an influx of investment funds at the start of the new year, a disagreement between Russia and Ukraine over natural gas prices helped underpinned crude oil prices. The Russian government-controlled company, Gazprom, cut deliveries to Ukraine on January 1 over a dispute concerning an increase in natural gas prices. The disruption affected other European countries, who reported decreases in deliveries following the cut. Up to a quarter of Europe's natural gas is imported from Russia. With recent severe winter weather across the continent, the short-lived disruption had a noticeable impact on oil market prices in the region. With urging to avoid an energy crisis, Russia restored deliveries on January 2, and settled on a price agreement shortly after that. Inclement winter weather also affected crude oil production in Russia and the North Sea, leading to less-than-average output during January. In other world regions, violence in Nigeria also supported higher oil prices. Attacks on industry infrastructures by militants hobbled oil production and exports throughout January. Although four foreign workers taken hostage earlier in the month were released on January 30, the militants threatened to continue attacks on oil production and transport facilities, with the stated intention of reducing crude oil exports by 30 percent in February. Additionally, a growing quarrel between Western nations and Iran over its resumption of nuclear fuel research colored market prices. Since recent estimates of spare production capacity at the global level fall below current Iranian exports, fears that

the dispute could have an impact on exports from the world's fourth largest oil exporter underpinned prices throughout January. Finally, meeting in Vienna, Austria, the Organization of Petroleum Exporting Countries (OPEC), voted on January 31 to maintain the group's production output levels at their current rate.

In the United States, crude oil and refined product prices were volatile during January. While prices began the month at robust levels, they retreated as inventories registered increases and relatively mild temperatures settled over most of the country. Following a run-up in late December, prices across the country began to ease in early January as supply concerns were allayed by reports of rising inventories. Additionally, January data shows implied demand for gasoline and distillate registered decreases from December levels. Preliminary monthly supply data show a 5.61 percent drop in gasoline demand, and a 3.75 percent decrease

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					
	January 2006		December 2005		January 2005		January 2006		December 2005		January 2005	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	187.7	56.7	174.1	60.9	139.8	55.7	174.9	297.0	160.9	332.7	128.5	302.5
Conventional	185.6	31.3	172.8	33.6	137.3	30.8	173.2	194.9	159.7	219.0	126.9	198.9
Regular	183.6	26.5	170.7	28.3	134.8	25.2	171.9	168.1	158.4	190.2	125.6	170.8
Midgrade	192.1	2.7	179.6	3.0	144.3	3.2	176.1	10.5	164.1	11.5	132.0	10.2
Premium	203.4	2.0	190.6	2.3	153.9	2.5	185.0	16.2	170.8	17.2	136.6	17.9
Oxygenated	184.8	2.4	176.2	2.5	140.2	3.5	170.3	10.8	162.0	11.4	126.9	11.8
Regular	182.7	2.0	174.3	2.1	137.4	2.7	169.0	9.0	160.6	9.3	125.3	9.5
Midgrade	192.0	0.2	181.4	0.3	145.9	0.5	172.2	1.0	164.5	1.1	130.0	1.1
Premium	200.5	0.2	190.8	0.2	156.2	0.3	182.6	0.9	172.7	0.9	137.1	1.2
Reformulated	190.9	23.0	175.6	24.9	143.3	21.4	179.2	91.3	163.5	102.4	132.2	91.7
Regular	187.2	17.7	171.9	19.1	139.3	15.8	176.9	75.6	161.3	85.2	129.9	72.7
Midgrade	198.2	2.6	183.0	2.8	150.2	2.7	184.5	3.5	168.8	3.9	137.2	4.6
Premium	207.7	2.7	192.5	3.0	158.8	3.0	192.0	12.1	176.1	13.3	142.0	14.4
Aviation Gasoline	239.0	0.1	219.6	0.1	W	W	221.2	0.3	201.7	0.4	159.5	0.4
Kerosene-Type Jet Fuel	184.3	39.8	177.4	45.4	131.2	42.5	182.9	16.4	173.7	15.1	131.7	13.7
Propane (Consumer Grade)	NA	3.7	152.5	3.8	105.2	2.8	104.5	38.3	106.9	43.3	79.5	49.6
Kerosene	229.5	0.3	NA	0.3	153.2	0.5	191.5	3.4	195.8	4.2	145.6	3.4
No. 1 Distillate	195.8	0.5	194.9	0.5	143.9	0.4	194.3	2.4	199.6	3.4	142.8	3.7
No. 2 Distillate	185.5	18.5	181.7	18.8	134.7	19.7	179.9	143.4	174.7	149.8	131.0	131.5
No. 2 Fuel Oil	188.4	2.2	187.1	2.3	138.7	2.6	174.6	24.3	171.4	26.5	131.1	26.0
No. 2 Diesel Fuel	185.2	16.3	180.9	16.5	134.2	17.1	181.0	119.1	175.5	123.3	131.0	105.6
Low Sulfur	189.4	10.7	184.2	11.5	136.9	11.0	182.1	100.9	176.3	103.6	131.4	88.4
High Sulfur	177.1	5.6	173.5	5.0	129.2	6.1	175.0	18.2	171.1	19.7	129.4	17.2
No. 4 Fuel^a	W	W	W	W	W	W	W	W	W	W	W	W
Residual Fuel Oil	124.2	10.3	119.5	11.4	77.3	12.2	118.5	3.7	119.6	5.9	70.7	6.7
Sulfur Content not > 1 %	134.6	3.9	134.6	4.5	84.6	5.6	125.8	2.1	129.3	3.5	79.5	3.6
Sulfur Content > 1 %	117.8	6.4	109.6	6.8	71.2	6.6	108.8	1.6	105.7	2.4	60.4	3.1

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."

for distillates. No. 2 heating oil prices faded during the first half of January, thanks to mild temperatures in the Northeast, the key consuming region for this product. Mild winter temperatures also helped to moderate natural gas prices, which in turn helped to dampen petroleum products' prices. Following the long holiday weekend at mid-month, all prices registered increases thanks to a combination of market technical factors and pressure from political issues in the Mideast and Africa. On the West Coast, gasoline prices jumped in California markets when a Los Angeles-area refinery's gasoline production unit was unexpectedly shut down. After a brief retreat, gasoline prices in many markets across the country were on the rise again at the end of January. The increase was partly due to market anticipation of the coming switch between producing winter-specification and summer-specification product. In

other news, crude oil production in the Gulf of Mexico remains below expected levels. The Minerals Management Service (MMS) reported as of January 25, 24.89 % (about 1.5 million barrels per day) of the daily oil production in the region was still off-line. The cumulative shut-in oil production for the period between August 26, 2005 and January 25, 2006 amounted 21.80% of the yearly production. The impact of the damage done by the hurricanes, geopolitical and other market issues during the past year can be seen in spot market prices. The monthly average spot market price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma was \$59.41 per barrel in December 2005, versus \$65.49 per barrel in January 2006, a difference of \$6.08 per barrel. Shedding more light on market changes during the past year, the average price for WTI in January 2005

Petroleum Products

was \$46.84 per barrel, a difference of \$18.65 per barrel to the January 2006 level. Similar differences are seen in the prices for regular gasoline and No. 2 fuel oil at New York Harbor. The monthly average price for No. 2 fuel oil was \$1.751 per gallon in January 2006 compared with \$1.707 per gallon in December 2005. The price was \$1.316 per gallon last year at this time, a difference of 43.5 cents per gallon. The price for regular gasoline averaged \$1.735 per gallon in January 2006, and \$1.600 in December 2005. The average price was \$1.241 per gallon one year ago, a difference of 49.4 cents.

Additional January 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 rose significantly during the first month of 2006. Opening January at \$61.06 per barrel, the price increased in response to flurry of buying in the futures markets during the initial days of the month. The price dropped to the month's low of \$62.81 per barrel on January 5 following the release of supply data showing growth in distillate and natural gas stocks. However, mounting concern over political issues, supply disruptions, and severe winter weather in parts of Europe and Asia drove the price upwards again. The month's high of \$68.36 per barrel was struck on January 30, the highest price level seen since late-summer 2005. Closing at \$67.86 per barrel, the price was \$6.80 higher than January's opening level.

- January monthly average crude oil prices show appreciable increases in all categories. The average domestic crude oil first purchase price rose \$4.60 (8.6 percent) to \$57.82 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil climbed \$3.08 (6.1 percent), to \$53.36 per barrel. The average landed cost of foreign crude oil rose \$2.66 (5.1 percent), to \$54.71 per barrel.

The average refiner acquisition cost for domestic crude oil increased \$4.23 (7.6 percent), to \$60.12 per barrel. The average cost of imported crude oil to U.S. refiners rose \$5.05 (9.9 percent), to \$55.90 per barrel, while the composite refiner acquisition cost for crude oil climbed \$4.81 (9.2 percent), to \$57.32 per barrel.

Motor Gasoline

The daily spot price for regular gasoline at New York Harbor was volatile during January. Opening at \$1.755 per gallon, the price took an upward track during the first week of the month as market interest moved from heating oil to gasoline. The month's high of \$1.834 per gallon was struck on January 6, thanks to recent robust demand for the product. Despite some short-lived deviations, the price declined after that point as inventories continued to registered gains. The price fell to its low of \$1.606 per gallon January 25. Closing the month at \$1.696 per gallon the price was 5.9 cents below its opening level for January.

- January monthly average prices for gasoline show significant increases from December levels. The average price for retail sales of motor gasoline by refiners climbed 13.6 cents to \$1.877 per gallon, while the average wholesale price rose 14.0 cents to \$1.749 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets increased 13.4 cents to \$1.878 per gallon. The average wholesale price for gasoline rose 14.0 cents to \$1.761 per gallon. The average dealer tank wagon (DTW) price moved up 13.7 cents to \$1.802 per gallon, while the average rack price also climbed 13.7 cents to \$1.756 per gallon. The average bulk sale price rose 13.9 cents to \$1.691 per gallon. Reformulated gasoline prices were 5.2 cents higher than conventional gasoline prices at retail, and 5.1 cents more at wholesale. Oxygenated gasoline prices were 2.7 cents lower than conventional gasoline prices at retail, and 2.0 cents less at wholesale.
- Refiner sales of motor gasoline fell during January. Total sales declined 39.9 million gallons per day (10.1 percent) to an average of 353.7 million gallons per day. Retail sales dropped 4.2 million gallons per day (6.9 percent), while wholesales decreased 35.7 million gallons per day (10.7 percent). Rack sales made up 71.5 percent of wholesales, while DTW and bulk sales constituted 15.2 percent and 13.2 percent, respectively. Reformulated gasoline made up 32.3 percent of total motor gasoline sales, while oxygenated gasoline explained 3.7 percent of sales.

No. 2 Distillate

While the daily spot price for No. 2 heating oil at New York Harbor remained unsettled during January, it did not experience drastic changes, thanks to comparatively warm temperatures and comfortable stock levels at the height of the winter heating season. After opening January at \$1.720 per gallon, the price moved steadily downwards during the first half of the month until reaching its low of \$1.675 per gallon on January 13. Following the long holiday weekend, the price rose due to market technical factors and political issues that affected the complex as a whole. The price reached its high of \$1.835 per gallon on January 20. Declining fitfully after that point, the price closed the month at \$1.762 per gallon, 4.2 cents above January's opening level.

Monthly average prices for No. 2 distillates rose moderately in January. The national average residential sales price increased 1.7 cents to \$2.325 per gallon. The average wholesale price climbed 4.9 cents to \$1.810 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets rose 2.3 cents, while the average wholesale price for No. 2 diesel fuel increased 5.3 cents. The difference between low- and high-sulfur diesel fuel prices was 8.3 cents at retail, and 7.3 cents at wholesale.

Sales of No. 2 distillates by refiners dropped in January. Total sales fell 6.7 million gallons per day (4.0 percent), to 161.9 million gallons per day. Sales of No. 2 fuel oil declined 2.3 million gallons per day (8.0 percent), while sales of No. 2 diesel fuel decreased 4.4 million gallons per day (3.1 percent). Low-sulfur diesel fuel made up 82.4 percent of all refiner diesel fuel sales, and 68.9 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Monthly average residual fuel oil prices rose in most sales categories during January. Refiner prices for low-sulfur residual fuel oil remained flat at \$1.346

per gallon at retail, and fell 3.5 cents to \$1.258 per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil jumped 8.2 cents to \$1.178 per gallon, while the wholesale price rose 3.1 cents, to \$1.088 per gallon. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil increased 1.8 cents to \$1.342 per gallon at retail, but declined 4.9 cents to \$1.198 per gallon at wholesale. The retail price for high-sulfur residual fuel oil rose 5.3 cents to \$1.174 per gallon, while the wholesale price increased 2.5 cents to \$1.073 per gallon.

- Refiner residual fuel oil sales declined in January. Total sales fell 3.3 million gallons per day to 14.0 million gallons per day. Low-sulfur residual fuel oil sales decreased 2.0 million (25.0 percent), while high-sulfur residual fuel oil sales declined 1.2 million gallons per day (13.0 percent).

Other Products

Prices for the remaining products show varied trends during January. The refiner retail price for propane declined 9.9 cents per gallon, while the wholesale price fell 2.4 cents per gallon. Including data from a sample of propane marketers, the average residential propane price rose 4.2 cents per gallon, while the average retail price increased 1.2 cents per gallon. The average wholesale propane price dropped 3.0 cents per gallon. Prices for kerosene-type jet fuel and aviation gasoline increased both the retail and wholesale level, while prices for kerosene did just the opposite. No. 1 distillate prices increased at retail, but declined at wholesale.

Refiner sales of these products were mixed in January. Sales of propane and aviation gasoline fell at both retail and wholesale. Kerosene-type jet fuel sales fell at retail, but rose at wholesale, while sales of No. 1 distillate did just the opposite. Kerosene sales were flat at retail and fell at wholesale level.