

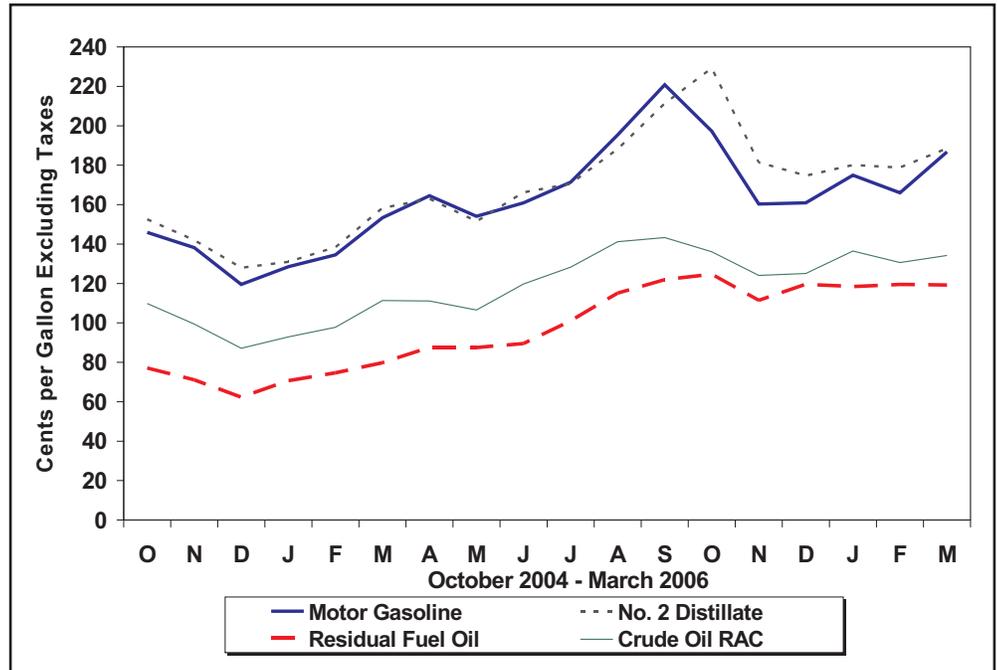
Highlights

World crude oil prices were volatile in March. A number of issues contributed to the overall increase, including the simmering international dispute with Iran over its nuclear fuel program, civil unrest in Nigeria, and sharply rising gasoline prices in the United States. At the beginning of the month, the International Atomic Energy Agency (IAEA) mulled over its options in response to Iran's refusal to discontinue its nuclear fuel program. While Iranian officials initially said they had no intention of halting oil exports, statements in following days opened the door for this option if world opinion continued to castigate Iran because of the program. The shift in tone influenced oil prices throughout international markets. However, prices softened after the Organization of Oil Exporting Countries (OPEC) voted to maintain current production levels (28.0 million barrels per day) during a quarterly meeting in Vienna, Austria on March 6. Further, the release of U.S. inventory reports a few days later showing another increase in crude oil stock levels helped to dampen prices. Despite those events, prices began to climb again thanks to emerging concern about gasoline production and supplies in the United States. At the same time, fears of continuing civil unrest in Nigeria also underpinned rising prices. Rebels in the Niger Delta region carried out attacks on oil transport and export facilities that cut about a quarter of that country's oil output in mid-February. Another attack on an additional pipeline occurred on March 17. Further, news that a pipeline for oil exports in northern Iraq would be out of commission for several months and threats of a strike by Norwegian oil workers over wage issues added support for higher prices. Notably, prices for benchmark crude oil streams hit their highest levels for the month at the end of March when Iran re-

jected the United Nations' Security Council call for a suspension of its uranium-enrichment activities. The uncertainty generated by these political issues underpinned oil prices, despite robust stockpiles in key world markets. Some market watchers speculate that although crude oil inventories are at robust levels in key markets, world oil production, particularly by OPEC nations, is running near peak capacity and any serious disruptions to output would send the market out of balance and oil prices higher.

In the United States, crude oil and refined product prices were on the rise during March. Refinery maintenance, falling gasoline stocks, and international political issues contributed to the growth in prices. Firm demand from the transportation sector supported distillate product prices, particularly for diesel fuel, in addition to lower output from refineries. Gasoline prices were particularly active due to falling inventories and

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					
	March 2006		February 2006		March 2005		March 2006		February 2006		March 2005	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	198.4	58.7	183.5	58.6	163.6	59.0	186.8	312.8	166.0	311.8	153.3	319.1
Conventional	196.4	33.4	179.6	33.1	160.4	33.9	185.3	208.8	163.2	208.4	151.2	211.3
Regular	194.2	28.2	177.2	27.9	158.2	27.9	183.7	181.5	161.9	181.8	149.9	182.1
Midgrade	203.8	2.9	187.5	3.0	167.0	3.4	192.0	10.4	168.1	10.8	155.7	11.4
Premium	213.6	2.3	198.4	2.2	175.8	2.6	198.5	16.9	174.2	15.8	161.8	17.9
Oxygenated	204.6	1.8	181.5	2.3	166.6	2.3	190.3	8.8	168.6	10.0	156.3	10.5
Regular	203.3	1.5	179.8	1.9	164.7	1.9	189.0	7.2	167.2	8.2	154.7	8.5
Midgrade	209.0	0.1	187.7	0.2	173.3	0.2	193.6	0.9	170.5	1.0	157.0	1.1
Premium	215.9	0.1	195.6	0.2	181.9	0.1	199.7	0.6	182.0	0.8	169.6	0.9
Reformulated	200.7	23.5	189.4	23.3	168.1	22.9	190.0	95.3	172.0	93.4	157.3	97.3
Regular	197.2	18.1	185.5	17.8	164.6	17.3	187.7	78.2	169.3	76.9	154.9	78.5
Midgrade	208.6	2.6	196.5	2.6	175.1	2.7	196.5	3.7	180.4	3.7	162.7	4.7
Premium	216.4	2.8	206.8	2.8	182.2	2.9	201.4	13.4	185.7	12.8	168.8	14.1
Aviation Gasoline	247.1	0.1	232.4	0.1	201.6	0.1	226.1	0.5	209.6	0.4	183.8	0.5
Kerosene-Type Jet Fuel	187.4	42.7	185.5	41.0	158.3	45.9	186.3	16.7	182.5	15.7	157.8	14.3
Propane (Consumer Grade)	NA	2.4	138.8	4.2	109.0	2.7	96.4	37.1	97.4	40.6	86.2	38.7
Kerosene	231.3	0.1	218.8	0.2	166.3	0.4	196.5	1.3	184.7	2.4	163.0	2.1
No. 1 Distillate	203.1	0.3	198.2	0.3	169.5	0.3	197.0	1.5	182.8	3.3	168.2	1.2
No. 2 Distillate	194.3	19.1	186.9	18.0	162.2	20.9	188.5	148.0	178.8	143.9	158.3	143.8
No. 2 Fuel Oil	192.7	2.0	185.5	2.0	159.5	2.2	179.4	22.0	171.1	26.6	153.7	21.8
No. 2 Diesel Fuel	194.5	17.1	187.0	16.0	162.6	18.7	190.1	125.9	180.6	117.3	159.1	121.9
Low Sulfur	197.9	11.9	191.2	10.9	164.7	12.0	191.6	107.6	182.3	99.8	160.0	103.5
High Sulfur	187.0	5.3	178.0	5.0	158.8	6.7	181.2	18.3	171.0	17.5	154.2	18.5
No. 4 Fuel^a	W	W	W	W	W	W	W	W	W	W	115.9	0.1
Residual Fuel Oil	125.0	10.0	125.4	10.7	89.0	11.2	119.2	4.1	119.5	3.8	79.8	6.5
Sulfur Content not > 1 %	136.0	3.5	137.8	3.5	95.1	5.6	121.8	2.4	122.2	2.5	93.4	3.3
Sulfur Content > 1 %	119.1	6.5	119.5	7.2	82.8	5.6	115.5	1.7	114.6	1.3	66.1	3.2

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."

the coming shift to producing the more stringent specification gasoline used during warm weather months. Further, the mandated switch from using MTBE to ethanol as the oxygenate in reformulated gasoline in many states also spurred prices higher. Although the conversion to ethanol is not required until May, two major pipeline operators who supply East Coast markets had planned to stop shipping gasoline with MTBE in March. Due to supply issues, the Colonial Pipeline Company relaxed that decision at the beginning of March, saying it would continue to ship gasoline with MTBE on a case-by-case basis. Weekly inventory reports showed a steady decrease in gasoline stocks during the month, with reformulated gasoline stocks registering a 19.5 percent decrease by the end of March. Refinery maintenance also affected product supplies

and consequently, prices. The four-week average ending on March 31 shows the refinery utilization rate at 86.3 percent, well below the March 2005 rate. Notably, while the lower rate of refinery operations contributed to crude oil stocks rising to long-term highs, crude oil prices rose overall during March. Gasoline prices and international political issues drove the increase. Monthly average spot market prices for the major petroleum products show some of the changes taking place in markets across the U.S. The average spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma rose to \$62.69 per barrel, up a \$1.06 from February's average of \$61.63 per barrel. Last March, the price was \$54.19 per barrel, \$8.50 below the March 2006 average price. As the heating season waned, the March monthly average price for No. 2 fuel oil at New York Harbor was \$1.777 per gallon compared with

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\$1.639 per gallon last month, and \$1.551 per gallon in March 2005. The New York Harbor spot price for regular gasoline averaged \$1.765 per gallon in March 2006, rising 26.6 cents from last month's level. The price in March 2005 was \$1.439 per gallon, reflecting a 32.7 cents difference with the product's current level.

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

Crude Oil

The daily spot price for West Texas Intermediate (WTI) crude oil moved along a volatile course during March. Opening at \$61.37 per barrel, the price rose during the initial days of the month due to technical factors and the dispute over Iran's nuclear fuels program. The price began to fall during the second week of the month amid reassurances of ample supplies across international markets should Iran cut exports and as inventory reports showed U.S. crude oil stocks rising yet again. The month's low was reached on March 10, when the price hit \$59.91 per barrel. Concern about international political issues and steadily declining gasoline inventories spurred prices higher, especially during the latter part of the month. The price reached its high for the month, \$66.70 per barrel on March 30, following a significant drop in gasoline stocks and Iran's refusal to accede to the U.N. request to halt its nuclear fuels development program. Closing the month at \$66.25 per barrel, the price was \$4.88 above its opening level for March.

- Changes to monthly average crude oil prices were mixed in March. The average domestic crude oil first purchase price fell 47 cents (0.8 percent) to \$55.22 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil climbed \$2.41 (4.7 percent), to \$53.61 per barrel. The average landed cost of foreign crude oil rose \$1.63 (3.1 percent), to \$54.73 per barrel.
- The average refiner acquisition cost for domestic crude oil declined 62 cents (1.0 percent), to \$58.44 per barrel. The average cost of imported crude oil to U.S. refiners increased \$2.51 (4.8 percent), to \$55.31 per barrel, while the composite refiner acquisition cost for crude oil rose \$1.52 (2.8 percent), to \$56.37 per barrel.

Motor Gasoline

At New York Harbor, the daily spot price for regular gasoline increased significantly during March, thanks to concern about supplies in the coming months. After opening at \$1.578 per gallon, its lowest point for March, the price set upon a volatile course lasting through the end of the month. It registered considerable gains during the first half, thanks to growing concerns about supplies and reports of refinery outages. Following a comparative lull at mid-month, the price rose again on larger than expected stockdraws, more refinery turnarounds, and continuing tensions regarding Iran's nuclear power program. The price reached its high of \$1.964 per gallon on the last day of the month, leaving the price a striking 38.6 cents above its opening level for March.

- Monthly average prices for gasoline increased significantly in all categories of sales during March. The average price for retail sales of motor gasoline by refiners climbed 14.9 cents to \$1.984 per gallon, while the average wholesale price jumped 20.8 cents to \$1.868 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets increased 15.5 cents to \$1.991 per gallon. The average wholesale price for gasoline rose 21.1 cents to \$1.876 per gallon. The average dealer tank wagon (DTW) price increased 18.3 cents to \$1.925 per gallon, while the average rack price surged 23.8 cents to \$1.881 per gallon. The average bulk sale price rose 15.8 cents to \$1.760 per gallon. Reformulated gasoline prices were 3.1 cents above conventional gasoline prices at retail, and 3.8 cents more at wholesale. Prices for oxygenated gasoline were 4.5 cents and 6.3 cents higher than conventional gasoline at retail and wholesale, respectively.
- Refiner sales of motor gasoline rose modestly in March. Total sales increased 1.1 million gallons per day (0.3 percent) to an average of 371.5 million gallons per day. Retail sales rose 100,000 gallons per day (0.2 percent), while wholesales increased 1.0 million gallons per day (0.3 percent). Rack sales made up 72.3 percent of wholesales, while DTW and bulk sales formed 14.8 percent and 12.8 percent, respectively. Reformulated gasoline accounted for 32.0 percent of total motor gasoline sales, while oxygenated gasoline made up 2.9 percent of sales.

No. 2 Distillate

In comparison to other prices in the complex, the daily spot price for No. 2 heating oil at New York Harbor showed relatively restrained movements during March. Following its opening at \$1.712 per gallon, the price followed the brief general upward trend seen throughout the market before dropping back to its low of \$1.683 per gallon on March 8. While it returned to a rising path after that point, it was less volatile than the price for gasoline, thanks to robust inventories and the approaching end to the heating season. Underpinned by the general increase in petroleum product prices at the end of the month, the price for heating oil reached its high of \$1.872 per gallon on March 30. Closing the month at \$1.855 per gallon, the price was 14.3 cents above its opening level for March.

While No. 2 distillate prices show increases in all sales categories, the changes are not as dramatic as those seen in gasoline prices. The national average residential sales price rose 3.7 cents to \$2.346 per gallon. The average wholesale price climbed 9.5 cents to \$1.892 per gallon. The average price for No. 2 diesel fuel at company-operated retail rose 7.7 cents, while the average wholesale price for No. 2 diesel fuel climbed 9.5 cents. The margin between low- and high-sulfur diesel fuel prices was 10.4 cents at retail, and 10.0 cents at wholesale.

- Sales of No. 2 distillates by refiners were mixed in March. Total sales increased 5.1 million gallons per day (3.1 percent), to 167.1 million gallons per day. Sales of No. 2 fuel oil fell 4.7 million gallons per day (16.4 percent), while sales of No. 2 diesel fuel rose 9.8 million gallons per day (7.4 percent). Low-sulfur diesel fuel accounted for 83.5 percent of all refiner diesel fuel sales, and 71.5 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- March monthly average residual fuel oil prices show limited changes from February levels. Refiner prices for low-sulfur residual fuel oil declined 1.8 cents to \$1.360 per gallon at retail, and 0.4 cent to \$1.218 per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil decreased 0.4 cent to \$1.191 per gallon, while the wholesale price rose 0.9 cent, to \$1.155 per gallon. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil dropped 2.9 cents to \$1.342 per gallon at retail, but rose 1.4 cents to \$1.227 per gallon at wholesale. The retail price for high-sulfur residual fuel oil fell 0.1 cent to \$1.194 per gallon, while the wholesale price increased 0.8 cent to \$1.148 per gallon.
- Refiner residual fuel oil sales dropped slightly in March. Total sales fell 400,000 gallons per day to 14.1 million gallons per day. Low-sulfur residual fuel oil sales declined 100,000 gallons per day (1.7 percent), while high-sulfur residual fuel oil sales decreased 300,000 gallons per day (3.5 percent).

Other Products

- March prices for the remaining surveyed products show a wide range of changes from February levels. The refiner wholesale price for propane dropped 1.0 cent per gallon. Including data from a sample of propane marketers, the average residential propane price fell 0.5 cent per gallon, while the average retail price rose 1.0 cent per gallon. The average wholesale propane price declined 1.2 cents per gallon. Prices for kerosene-type jet fuel, aviation gasoline, kerosene, and No. 1 distillate show appreciable increases in both sales categories.
- Refiner sales of these products varied during March. Sales of propane, kerosene, and No. 1 distillate decreased at both the retail and wholesale levels. Kerosene-type jet fuel and aviation gasoline increased in both sales categories.