

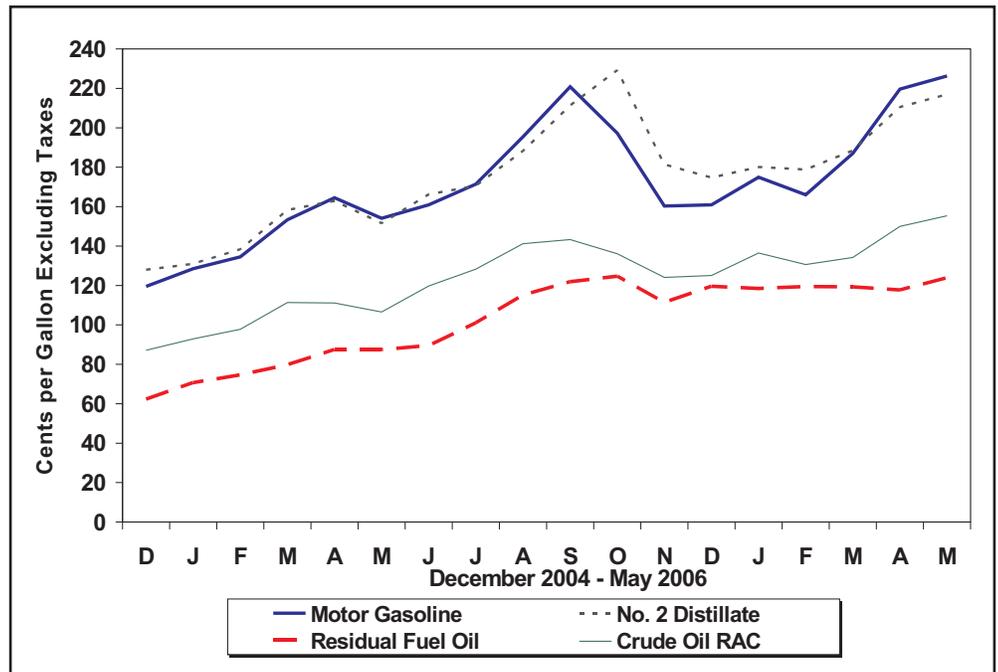
Highlights

While the sharp climb in international crude oil prices seen throughout April ended in early May, prices remained unsettled for the remainder of the month due to pressure from political matters and market fundamental issues. Ongoing tensions between Western nations and Iran over its nuclear energy program continued to underpin prices at the start May. The standoff has fostered concern that Iran, the world's fourth largest oil producer, could decide to halt exports in response to the West's disapprobation. Though prices had been in decline for several days, the kidnapping of three foreign oil workers in Port Harcourt, Nigeria on May 11 sent them sharply higher again. A few days later, worries that the recent high oil prices could contribute to a global economic slowdown gripped commodities markets, leading to a pronounced drop in crude oil prices. They increased again during the second half of the month, although at a more moderate pace, following the release on May 22 of a U.S. National Oceanic and Atmospheric Administration (NOAA) forecast for an active 2006 hurricane season in the North Atlantic region. In contrast, reports that the Organization of Petroleum Exporting Countries (OPEC) would likely vote to maintain current production levels at its meeting in early June and increases in U.S. gasoline inventories tempered prices. However, at the end of the month, indications that demand from China was on the rise again coupled with the continuing influence of geopolitical issues underpinned prices.

Prices for crude oil and refined products in U.S. markets were also volatile during May. Robust demand, refinery and pipeline problems, and international political issues all contributed pressure on prices. Despite an improving outlook for refined

product inventories at the start of the month, unexpected refinery problems, especially on the West Coast, bolstered prices. Los Angeles spot market prices for the regular grade of California reformulated gasoline (CaRFG) neared \$3.00 per gallon at the beginning of the month, thanks to refinery problems at various locations in the state. In other regions, although the oxygen content requirement for federal-program reformulated gasoline ended on May 8, worries about replacing MTBE with ethanol as an oxygenate continued to pressure prices. At this time, ethanol is a more costly product than MTBE. However, climbing production rates and inventory levels moderated prices. Finished gasoline production rose during May, rising above the pace seen last year at this time. Distillate fuel production also increased from April levels in May, but was lower than the May 2005 rate. While refinery utilization rose in May as more units returned from maintenance, it remained well below the level seen at last year at this

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 | | | | | |
|---------------------------------------|--------------------|--------|------------|--------|----------|--------|------------------|--------|------------|--------|----------|--------|
| | May 2006 | | April 2006 | | May 2005 | | May 2006 | | April 2006 | | May 2005 | |
| | Price | Volume | Price | Volume | Price | Volume | Price | Volume | Price | Volume | Price | Volume |
| Motor Gasoline | 246.1 | 58.8 | 233.4 | 59.4 | 171.2 | 60.9 | 226.3 | 323.0 | 219.6 | 319.6 | 154.1 | 333.5 |
| Conventional | 236.5 | 34.1 | 230.4 | 34.3 | 165.1 | 35.2 | 218.2 | 224.1 | 216.3 | 218.9 | 150.2 | 222.6 |
| Regular | 234.2 | 29.2 | 228.4 | 29.3 | 162.5 | 29.2 | 216.6 | 196.8 | 214.7 | 192.0 | 148.9 | 191.5 |
| Midgrade | 245.4 | 2.8 | 237.8 | 2.9 | 172.7 | 3.4 | 224.4 | 10.4 | 223.0 | 11.0 | 152.9 | 11.8 |
| Premium | 255.9 | 2.1 | 248.2 | 2.1 | 183.7 | 2.6 | 232.9 | 17.0 | 231.7 | 15.8 | 161.8 | 19.3 |
| Oxygenated | 241.9 | 1.4 | 234.7 | 1.4 | 164.1 | 2.0 | 223.5 | 7.4 | 218.2 | 7.6 | 154.2 | 8.4 |
| Regular | 240.6 | 1.3 | 233.2 | 1.2 | 161.8 | 1.7 | 222.7 | 6.1 | 217.3 | 6.3 | 153.2 | 6.9 |
| Midgrade | 246.0 | 0.1 | 241.4 | 0.1 | 172.6 | 0.2 | 224.3 | 0.9 | 221.1 | 0.9 | 151.5 | 0.9 |
| Premium | 256.2 | 0.1 | 248.3 | 0.1 | 179.8 | 0.1 | 232.3 | 0.5 | 226.4 | 0.4 | 171.6 | 0.6 |
| Reformulated | 260.5 | 23.2 | 237.6 | 23.7 | 180.8 | 23.8 | 246.3 | 91.5 | 227.5 | 93.1 | 162.7 | 102.5 |
| Regular | 256.9 | 18.3 | 234.4 | 18.4 | 176.8 | 18.0 | 244.0 | 75.7 | 225.4 | 77.6 | 160.1 | 83.8 |
| Midgrade | 268.7 | 2.4 | 245.0 | 2.5 | 188.6 | 2.8 | 253.5 | 3.5 | 233.5 | 3.5 | 170.6 | 4.6 |
| Premium | 278.3 | 2.5 | 253.1 | 2.7 | 197.5 | 3.0 | 258.4 | 12.3 | 239.8 | 11.9 | 175.7 | 14.1 |
| Aviation Gasoline | 301.3 | 0.1 | 286.9 | 0.1 | 212.8 | 0.1 | 274.3 | 0.7 | 265.4 | 0.5 | 195.0 | 0.5 |
| Kerosene-Type Jet Fuel | 215.7 | 41.6 | 204.8 | 42.1 | 157.3 | 44.2 | 213.2 | 13.7 | 203.2 | 13.6 | 155.9 | 17.9 |
| Propane (Consumer Grade) | 128.9 | 1.8 | 129.7 | 1.9 | 99.3 | 2.2 | 104.6 | 29.6 | 102.2 | 35.0 | 81.7 | 28.9 |
| Kerosene | 255.2 | 0.0 | 251.6 | 0.0 | NA | NA | NA | 1.0 | 218.2 | 0.6 | 154.7 | 0.6 |
| No. 1 Distillate | 236.0 | 0.2 | 218.4 | 0.2 | 164.6 | 0.1 | 210.1 | 0.7 | 203.0 | 1.0 | 160.7 | 0.3 |
| No. 2 Distillate | 225.4 | 18.3 | 214.1 | 17.5 | 156.6 | 20.3 | 216.9 | 138.7 | 210.5 | 133.7 | 151.5 | 137.0 |
| No. 2 Fuel Oil | 212.8 | 1.1 | 208.4 | 1.3 | 148.8 | 1.9 | 201.3 | 14.3 | 197.2 | 15.2 | 144.4 | 15.8 |
| No. 2 Diesel Fuel | 226.2 | 17.2 | 214.6 | 16.2 | 157.4 | 18.4 | 218.7 | 124.4 | 212.2 | 118.5 | 152.4 | 121.2 |
| Low Sulfur | 231.6 | 11.2 | 219.2 | 10.8 | 161.2 | 12.3 | 220.5 | 107.8 | 213.8 | 101.7 | 153.4 | 105.7 |
| High Sulfur | 215.9 | 5.9 | 205.2 | 5.4 | 149.4 | 6.0 | 206.6 | 16.6 | 202.5 | 16.8 | 145.5 | 15.5 |
| No. 4 Fuel^a | W | W | W | W | 133.4 | 0.1 | W | W | W | W | W | W |
| Residual Fuel Oil | 131.9 | 9.0 | 127.8 | 9.6 | 102.3 | 8.9 | 123.9 | 5.0 | 117.7 | 4.4 | 87.5 | 4.5 |
| Sulfur Content not > 1 % | 143.5 | 2.3 | 139.7 | 2.5 | 109.0 | 3.2 | 125.9 | 3.2 | 120.2 | 2.3 | 92.0 | 1.5 |
| Sulfur Content > 1 % | 128.0 | 6.7 | 123.6 | 7.1 | 98.4 | 5.6 | 120.4 | 1.8 | 114.9 | 2.1 | 85.2 | 3.0 |

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."

time. Crude oil and other product prices were also supported by continued civil unrest in Nigeria, which is a significant source of crude oil used in the United States. Further, the release of the forecast for the 2006 hurricane season by NOAA underpinned prices. At the same time the forecast was released, U.S. Energy Secretary Samuel Bodman stated the United States is better prepared for the coming hurricane season than it was last year. However, he also noted that about 10 percent of domestic crude oil production was permanently lost due to last year's storms. The U.S. Minerals Management Service also released a report updating the damage from Hurricanes Katrina and Rita at the beginning of the month. The report listed many offshore oil and

gas production platforms declared destroyed and many pipelines still out of service at the time of the report. The accumulated effects of these and other factors seen since fall 2005 have had a significant impact on prices. Compared with levels seen at this time last year, May 2006 monthly average spot market prices for crude oil and finished products at New York Harbor show significant changes. For West Texas Intermediate (WTI) crude oil, conventional regular gasoline, and No. 2 fuel oil, prices show increases of 42 percent, 49 percent, and 40 percent, respectively.

Additional May 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 remained unsettled during May. Opening at \$71.80 per barrel, the price moved to its high of \$74.62 per barrel on May 2, thanks to continued political tension surrounding Iran's nuclear energy program. While political upheaval in Nigeria spurred it sharply upward again during the second week of the month, the price retreated again, dropping to its low of \$68.44 per barrel on May 19. It rose fitfully during the latter part of the month, due to a variety of issues including favorable economic news and long-term weather forecast for the coming hurricane season. Closing at \$71.42 per barrel, the price was only 38 cents lower than its opening level for May.

- Monthly average crude oil prices show mixed trends. The average domestic crude oil first purchase price rose \$1.81 (2.9 percent) to \$64.32 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil shows little change in May, dropping 6.0 cents (0.1 percent), to \$62.00 per barrel. The average landed cost of foreign crude oil fell 7.0 cents (0.1 percent), to \$63.23 per barrel.
- The average refiner acquisition cost for domestic crude oil climbed \$3.09 (4.8 percent), to \$67.12 per barrel. The average cost of imported crude oil to U.S. refiners rose \$1.84 (2.9 percent), to \$64.25 per barrel, while the composite refiner acquisition cost for crude oil increased \$2.29 (3.6 percent), to \$65.26 per barrel.

Petroleum Products

Motor Gasoline

The daily spot price for regular gasoline at New York Harbor moved along a bumpy path during May. After opening at \$2.075 per gallon, the price jumped to the month's high of \$2.214 per gallon on May 2, due in part to concern about supply levels just prior to the start of the summer driving season and news of refinery problems on the West Coast. International political issues affecting crude oil prices also underpinned the price for gasoline, pushing it upwards again during the second week of the month. The price eased at mid-month,

dropping to its low of \$1.905 per gallon on May 17, following reports of rising inventory levels. The price increased during the second half of the month, as the Memorial Day weekend approached. The holiday is seen as the beginning of the high demand summer driving season. Closing May at \$2.045 per gallon, the price was 3.0 cents lower than when it began the month.

- Monthly average prices for finished gasoline climbed again in May. The average price for retail sales of motor gasoline by refiners increased 12.7 cents to \$2.461 per gallon, while the average wholesale price rose 6.7 cents to \$2.263 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets rose 10.0 cents to \$2.436 per gallon. The average wholesale price for gasoline increased 6.0 cents to \$2.265 per gallon. The average dealer tank wagon (DTW) price climbed 11.4 cents to \$2.380 per gallon, while the average rack price rose 3.0 cents to \$2.249 per gallon. The average bulk sale price increased 8.1 cents to \$2.118 per gallon. Reformulated gasoline prices were much higher than conventional gasoline prices in May. They were 23.7 cents more at retail, and 26.2 cents higher at wholesale. Oxygenated gasoline prices were 0.8 cent above conventional gasoline prices at retail, and 4.1 cents more at wholesale.
- Compared with April trends, refiner sales of motor gasoline slowed during May. Total sales rose 2.8 million gallons per day (0.7 percent) to an average of 381.8 million gallons per day. Retail sales fell 600,000 gallons per day (1.0 percent), while wholesales increased 3.4 million gallons per day (1.1 percent). Rack sales made up 71.9 percent of wholesales, while DTW and bulk sales represented 13.8 percent and 14.3 percent, respectively. Reformulated gasoline accounted for 30.0 percent of total motor gasoline sales, while oxygenated gasoline made up 2.3 percent of sales.

No. 2 Distillate

While less volatile than other products' prices in the complex, the May daily spot price for No. 2 heating oil at New York Harbor remained at a robust level for this time of year. Opening at \$1.990 per gallon, the price rose to its high of \$2.071 per gallon on May 2. Following the generally unsettled trend seen in the market during the first half of the month, the price then dropped to its low of \$1.896 per gallon on May 17. It regained some ground after that point, and ended the month at \$1.962 per gallon, 3.3 cents higher than where it began May.

- No. 2 distillate prices rose in all sales categories again during May. The national average residential sales price climbed 5.0 cents to \$2.475 per gallon, while the average wholesale price increased 6.5 cents to \$2.176 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets jumped 13.4 cents, while the average wholesale price for No. 2 diesel fuel rose 6.3 cents. The margin between low- and high-sulfur diesel fuel prices was 15.9 cents at retail, and 13.1 cents at wholesale.
- Sales of No. 2 distillates by refiners generally increased during May. Total sales rose 5.8 million gallons per day (3.8 percent), to 157.0 million gallons per day. Sales of No. 2 fuel oil dropped 1.1 million gallons per day (6.7 percent), while sales of No. 2 diesel fuel rose 6.9 million gallons per day (5.1 percent). Low-sulfur diesel fuel represented 84.0 percent of all refiner diesel fuel sales, and 75.8 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Generally, monthly average prices for residual fuel oil rose during May. Refiner prices for low-sulfur residual fuel oil increased 3.8 cents to \$1.435 per gallon at retail, and 5.7 cents to \$1.259 per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil rose 4.4 cents to \$1.280 per gallon, while the wholesale price increased 5.5 cents, to \$1.204 per gallon. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil dropped 0.4 cent to \$1.369 per gallon at retail, and 0.1 cent to \$1.244 per gallon at wholesale. The retail price for high-sulfur

residual fuel oil increased 3.6 cents to \$1.280 per gallon, while the wholesale price climbed 2.3 cents to \$1.189 per gallon.

- Residual fuel oil sales by refiners were mixed during May. Total sales were flat at 14.0 million gallons per day. Low-sulfur residual fuel oil sales rose 700,000 gallons per day (14.6 percent), while high-sulfur residual fuel oil sales fell 700,000 gallons per day (7.6 percent).

Other Products

- May prices for the remaining surveyed products largely increased from April levels. At the refiner level, the retail price for propane dropped 0.8 cent per gallon, while the wholesale price rose 2.4 cents per gallon. Including data from a sample of propane marketers, the average residential propane price inched up 0.8 cent per gallon, while the average retail price rose 0.5 cent per gallon. The average wholesale propane price increased 2.8 cents per gallon. Prices for kerosene-type jet fuel, aviation gasoline, and No. 1 distillate show significant increases in both sales categories. Kerosene prices rose at retail, but fell at wholesale.
- Refiner sales of the products included in this section were generally down in May. At the retail level, sales of propane, kerosene-type jet fuel, aviation gasoline, kerosene, and No. 1 distillate all declined. At the wholesale level, sales of propane and No. 1 distillate also fell, while sales of kerosene-type jet fuel, aviation gasoline, and kerosene increased.