

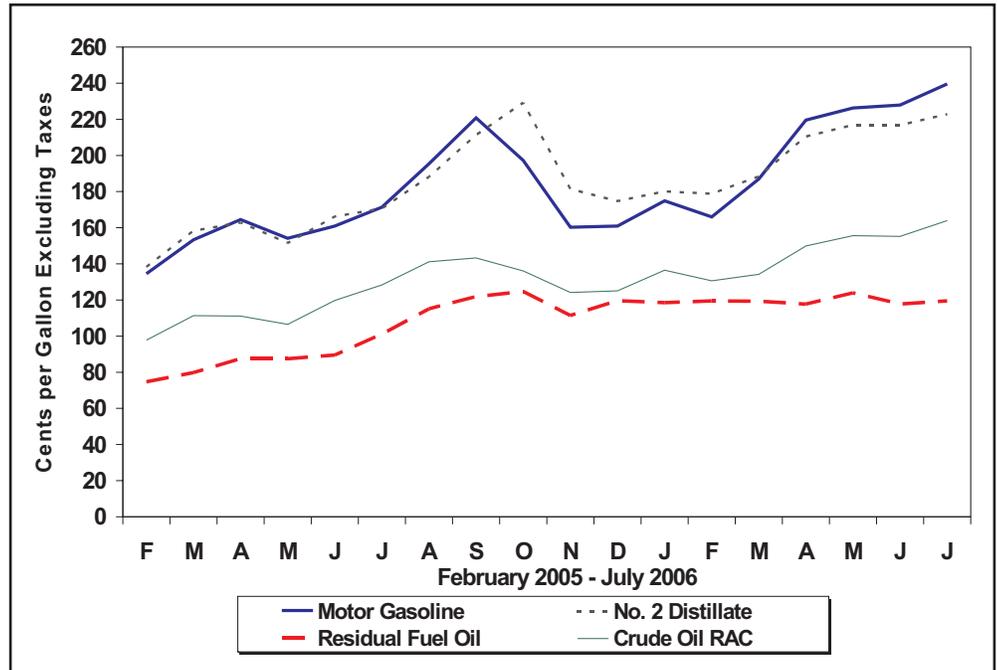
Highlights

International crude oil prices were unsettled during July. Political conflict in the Middle East, reduced exports from Nigeria, robust gasoline prices in the United States, and impending maintenance on North Sea production facilities supported higher crude oil prices. In June, the ongoing dispute between the West and Iran over its nuclear fuels program caused oil prices to rise significantly and continued to do so through the start of July. Notably, the dispute has helped underpinned crude oil costs for the past several months, even when fundamental factors were more supportive of a decline in prices. Exacerbating that situation, North Korea test-fired a number of missiles on July 4, including a long-range one that has the potential to reach North America. Shortly after that, however, a change in the tenor of discussions with Iran over its nuclear fuels program dampened the rise in prices. More specifically, Iran's chief negotiator expressed interest in the latest proposal for Iran to discontinue its objective of nuclear fuels development. Nevertheless, the outbreak of hostilities between Israel and Lebanon at mid-month induced prices to rise again, causing many benchmark streams to reach record-setting highs. Market fears that the conflict would spread, or otherwise affect crude oil exports from the region, drove the increase. However, an unexpected rise in U.S. crude oil and gasoline stocks reported on July 17 helped to soften prices again. As the month wore on, oil prices remained in an unsettled mode, influenced continuing violence in the Israel-Lebanon conflict and by another suspected attack on a pipeline in Nigeria. This and other outages in Nigerian crude oil production caused by rebel attacks on oil industry infrastructure have contributed to an estimated 750,000 barrels-per-day reduction in output. Because Nigeria produces highly

desirable low-sulfur crude oil, the reduction in exports has an appreciable impact on market prices. Coupled with an expectation of lower output from North Sea fields in August because of scheduled maintenance, prices remained at robust level through the close of July.

In U.S. markets, prices for crude oil and refined products were volatile during July. Fluctuating inventory levels, refinery outages, robust demand for gasoline, and fears of storms all affected prices. At the start of the month, an unexpected increase in crude oil and gasoline stocks pulled prices down. Gasoline imports from European sources and the reopening of the Calcasieu Ship Channel in late June contributed to the reported increase in inventory levels. Further, prices for ethanol (a blending component used in reformulated gasoline) saw substantial decreases from the very high levels seen during June. Additionally, reports of positive de-

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					
	July 2006		June 2006		July 2005		July 2006		June 2006		July 2005	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	253.0	60.0	243.9	60.5	185.0	61.1	239.6	316.5	227.9	329.5	171.4	329.4
Conventional	245.6	34.6	234.8	34.7	179.7	35.6	234.0	219.3	221.0	230.4	167.1	223.3
Regular	243.6	29.7	232.5	29.6	177.3	29.7	232.4	194.6	219.2	203.6	165.6	191.6
Midgrade	253.9	2.8	243.7	2.8	186.6	3.4	241.8	8.1	229.8	9.3	170.3	12.6
Premium	263.6	2.1	253.4	2.2	197.3	2.6	249.5	16.6	237.5	17.5	179.5	19.1
Oxygenated	258.9	1.8	248.4	1.8	185.4	1.8	247.8	7.1	233.0	7.6	169.5	8.0
Regular	257.0	1.5	246.5	1.5	183.4	1.5	247.1	5.9	232.1	6.1	168.8	6.5
Midgrade	266.8	0.1	254.1	0.1	191.5	0.2	248.0	0.8	234.4	0.9	169.5	1.0
Premium	275.6	0.1	265.9	0.1	201.2	0.1	256.7	0.5	242.2	0.5	178.8	0.5
Reformulated	263.4	23.6	256.6	24.0	193.0	23.7	252.5	90.1	245.1	91.6	181.5	98.0
Regular	259.8	18.5	253.0	18.9	189.3	18.1	250.1	74.6	242.6	76.3	178.9	80.0
Midgrade	271.1	2.5	264.5	2.5	200.6	2.7	258.9	3.4	251.6	3.4	187.3	4.4
Premium	281.4	2.6	274.5	2.7	209.1	2.9	265.2	12.1	258.9	11.9	194.6	13.7
Aviation Gasoline	310.3	0.1	305.7	0.1	223.0	0.1	287.1	0.7	274.6	0.6	210.2	0.6
Kerosene-Type Jet Fuel	217.8	43.7	215.9	44.5	172.4	45.8	217.4	14.2	213.3	15.9	171.2	17.0
Propane (Consumer Grade)	135.7	1.5	129.9	1.9	100.6	2.3	110.4	32.6	106.1	35.1	86.0	24.9
Kerosene	NA	0.0	246.9	0.0	178.1	0.1	225.8	0.9	219.4	0.6	176.5	1.2
No. 1 Distillate	240.2	0.1	234.8	0.2	184.1	0.2	231.5	0.4	NA	0.8	178.4	0.4
No. 2 Distillate	227.9	18.1	224.2	18.6	176.0	18.0	222.8	134.6	216.8	141.5	170.6	136.6
No. 2 Fuel Oil	213.2	0.9	209.6	0.9	171.1	1.7	200.6	12.3	198.4	13.3	164.7	17.4
No. 2 Diesel Fuel	228.7	17.2	224.9	17.6	176.5	16.4	225.0	122.3	218.7	128.3	171.5	119.3
Low Sulfur	233.3	12.2	230.5	12.3	178.5	11.5	227.8	107.1	221.0	112.0	171.9	105.8
High Sulfur	217.1	4.9	212.1	5.3	171.7	4.8	206.1	15.3	202.9	16.2	167.8	13.4
No. 4 Fuel^a	W	W	W	W	W	W	W	W	W	W	W	W
Residual Fuel Oil	127.8	10.0	128.6	9.9	105.1	9.4	119.5	7.2	116.9	6.1	101.1	4.4
Sulfur Content not > 1 %	145.1	2.0	148.1	2.2	116.8	3.7	128.4	2.2	125.3	1.7	113.8	2.2
Sulfur Content > 1 %	123.3	7.9	123.2	7.7	97.3	5.6	115.7	5.1	113.6	4.4	87.8	2.1

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."

developments in the situation surrounding the Iranian nuclear fuels program helped to moderate prices. However, prices rose swiftly during the second week of the month following the start of the conflict in the Middle East. Although some product prices declined relatively quickly, gasoline prices remained at substantial levels through the end of July, thanks to robust demand and unexpected outages at several refineries. A heat wave during the latter part of the month caused some concern that possible power outages would affect refinery operations. Despite a brownout in California that restricted pipeline operations for short period, the high temperatures did not affect the performance of oil industry facilities and systems. The rollout of ultra low-sulfur diesel fuel continued in July, with prices in Midwestern markets showing the highest levels, due to supply issues associated with the conversion to the

new product. A look at selected monthly average spot market prices sheds some light on general oil market trends during July. The average spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma was \$74.41 per barrel, marking an increase of \$3.50 from the June 2006 average of \$70.91 per barrel. The July 2005 price was \$59.00 per barrel, \$15.41 below the July 2006 price. At New York Harbor, the July 2006 monthly average price for No. 2 fuel oil was \$1.935 per gallon compared with \$1.925 per gallon last month, and \$1.640 per gallon one year ago. As might be expected amid current trends at the height of the summer driving season, the spot market price for regular gasoline at New York Harbor shows the most striking changes. The July 2006 price averaged \$2.237 per gallon, an increase of 17.2 cents from June's average of \$2.065 per gallon, and 64.7 cents above the July 2005 price of \$1.591 per gallon.

Additional July 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 WTI crude oil at Cushing, Oklahoma marked a new high during July due to the conflict in the Middle East. Opening at \$73.94 per barrel, the price retreated moderately in response to dialog between Western nations and Iran over its nuclear fuels program. In the following days, however, the conflict between Israel and Lebanon drove the price upward to a new all-time high of \$76.80 per barrel on July 14. It retreated as fears of the conflict widening began to abate and in response to reports of robust crude oil stocks in the United States. The price arrived at the month's low of \$72.79 per barrel on July 19. Remaining unsettled through the rest of the month, thanks to continuing tensions in the Middle East, the price closed July at \$74.56 per barrel, 62 cents higher than its opening level.

- July monthly average crude oil prices registered solid increases from June levels. The average domestic crude oil first purchase price rose \$3.39 (5.3 percent) to \$67.75 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil increased \$3.89 (6.3 percent), to \$65.43 per barrel. The average landed cost of foreign crude oil climbed \$3.36 (5.2 percent), to \$67.78 per barrel.
- The average refiner acquisition cost for domestic crude oil rose \$2.82 (4.2 percent), to \$70.57 per barrel. The average cost of imported crude oil to U.S. refiners climbed \$4.02 (6.3 percent), to \$67.99 per barrel, while the composite refiner acquisition cost for crude oil rose \$3.62 (5.5 percent), to \$68.87 per barrel.

Petroleum Products

Motor Gasoline

Following a brief downturn at the beginning of the month, the daily spot price for regular gasoline at New York Harbor continued to climb during July. After opening at \$2.187 per gallon, it eased following an un-

expected report of an increase in gasoline stocks. Following the month's low of \$2.124 per gallon on July 10, the price rose firmly due to a combination of fundamentals and the start of the Israel-Lebanon conflict. The price remained within a lofty range for the remainder of the month, thanks to firm demand and refinery outages, along with support derived from the robust prices seen throughout the complex. After reaching its high of \$2.303 cents per gallon on July 27, it closed the month at \$2.289 per gallon, 10.2 cents higher than July's opening level.

- Monthly average prices for finished gasoline registered substantial increases in all categories of sales during July. The average price for retail sales of motor gasoline by refiners rose 9.1 cents to \$2.530 per gallon, while the average wholesale price climbed 11.7 cents to \$2.396 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets increased 10.1 cents to \$2.524 per gallon. The average wholesale price for gasoline rose 11.5 cents to \$2.399 per gallon. The average dealer tank wagon (DTW) price increased 8.8 cents to \$2.467 per gallon, while the average rack price jumped 12.2 cents to \$2.404 per gallon. The average bulk sale price rose 11.9 cents to \$2.238 per gallon. Reformulated gasoline prices remained appreciably higher than conventional gasoline prices in July. Reformulated gasoline prices were 15.8 cents more at retail, and 18.5 cents higher at wholesale. Oxygenated gasoline prices were 9.5 cents above conventional gasoline prices at retail, and 12.6 cents more at wholesale.
- Refiner sales of motor gasoline declined in July. Total sales fell 13.5 million gallons per day (3.5 percent) to an average of 376.5 million gallons per day. Retail sales dropped 500,000 gallons per day (0.8 percent), while wholesales declined 13.0 million gallons per day (3.9 percent). Rack sales constituted 73.0 percent of wholesales, while DTW and bulk sales accounted for 14.4 percent and 12.7 percent, respectively. Reformulated gasoline formed 30.2 percent of total motor gasoline sales, while oxygenated gasoline accounted for 2.4 percent of sales.

No. 2 Distillate

The daily spot price for No. 2 heating oil at New York Harbor was unsettled during July. Opening at \$2.057 per gallon, the price fell solidly during the initial days of the month as inventories registered increases during the off-season for this product. However, along with other products prices in the complex, the No. 2 heating

oil price rose sharply in response to the conflict in the Middle East. Following additional reports of growing stock levels during the coming weeks the price returned to a downward path, reaching its low of \$1.864 per gallon on July 20. After registering modest gains during the latter half of the month, the price jumped to its high of \$2.103 per gallon on July 31, supported by sharply rising natural gas prices. The increase left the price more than 4 cents above its opening level for the month.

- No. 2 distillate prices rose moderately in July. The national average residential sales price inched up 0.6 cent to \$2.473 per gallon, while the average wholesale price rose 6.0 cent to \$2.237 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets climbed 3.9 cents, while the average wholesale price for No. 2 diesel fuel increased 6.6 cents. The spread between low- and high-sulfur diesel fuel prices was 16.5 cents at retail, and 19.3 cents at wholesale.
- Sales of No. 2 distillates by refiners fell in July. Total sales dropped 7.4 million gallons per day (4.6 percent), to 152.7 million gallons per day. Sales of No. 2 fuel oil declined 1.0 million gallons per day (7.2 percent), while sales of No. 2 diesel fuel decreased 6.4 million gallons per day (4.4 percent). Low-sulfur diesel fuel accounted for 85.4 percent of all refiner diesel fuel sales, and 78.0 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Residual fuel oil prices increased in most sales categories during July. Refiner prices for low-sulfur residual fuel oil fell 3.0 cents to \$1.451 per gallon at retail, but rose 3.1 cents to \$1.284 per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil increased 0.1 cent to \$1.233 per gal-

lon, while the wholesale price rose 2.1 cents, to \$1.157 per gallon. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil declined 1.1 cents to \$1.375 per gallon at retail, but increased 5.0 cents to \$1.279 per gallon at wholesale. The retail price for high-sulfur residual fuel oil rose 0.3 cent to \$1.233 per gallon, while the wholesale price climbed 1.9 cents to \$1.156 per gallon.

- Refiner sales of residual fuel oil rose modestly during July. Total sales increased 1.2 million gallons per day (7.5 percent), to 17.2 million gallons per day. Low-sulfur residual fuel oil sales rose 300,000 gallons per day (7.7 percent), while high-sulfur residual fuel oil sales increased 900,000 gallons per day (7.4 percent).

Other Products

- Prices for the remaining surveyed products generally rose in July. The refiner retail price for propane climbed 5.8 cents per gallon, while the wholesale price increased 4.3 cents per gallon. Including data from a sample of propane marketers, the average residential price declined 4.3 cents, while the average retail price increased 0.9 cent per gallon. The average wholesale propane price climbed 4.9 cents per gallon. Prices for kerosene-type jet fuel, aviation gasoline, and No. 1 distillate increased at both levels. Kerosene prices declined at retail but rose at wholesale.
- Refiner sales of most of the products included in this section declined in July. Sales of propane, kerosene-type jet fuel, and No. 1 distillate fell at both the retail and wholesale levels, while kerosene sales rose at both levels. Sales of aviation gasoline fell at retail but increased at wholesale.