

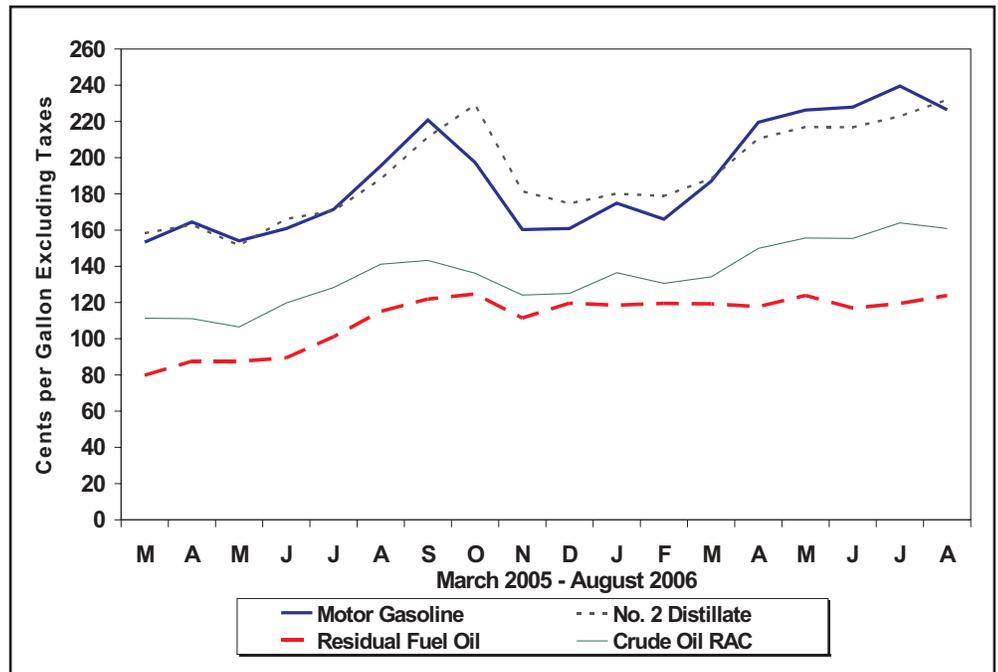
Highlights

Despite the robust values for many benchmark streams seen in early in the month, international crude oil prices fell significantly during August. Production disruptions, political issues, and tumbling gasoline prices all contributed to the decrease in oil prices. At the start of the month, prices were supported by hostilities between Israel and Lebanon, and the continuing standoff between the West and Iran over its nuclear fuels program. Additionally, the announcement on August 6 that extensive corrosion had been discovered on crude oil transit pipelines at the Prudhoe Bay, Alaska oil field bolstered prices. In the days following the discovery, BP Oil, which operates the affected pipelines, announced plans to close down production to replace the damaged portions. Initial time estimates for full repairs were 2 to 3 months. The issue rippled across world oil markets, affecting prices for other key oil streams. Brent crude oil, one of the key European oil streams, hit a new long-term high on August 8, thanks to the problems at Prudhoe Bay, and ongoing problems with Nigerian crude oil production and exports. Further, threats by Iran to cut oil exports in response to sanctions sharpened the impact of these issues. In an about-face from the volatile atmosphere seen during the first part of August, prices were in firm decline by mid-month. The interception and disruption of a plan to bomb jetliners by British authorities on August 10 helped to dampen prices. Further, some of the matters that had helped drive prices up previously reached at least some degree of resolution. News that a Nigerian crude oil pipeline damaged in an attack in July had been repaired, allowing a more normal rate of shipment to resume had a dampening effect on prices. A cease-fire agreement between Israel and Lebanon was reached on August 14, an issue

that had added an abstract premium on prices because of apprehension that the conflict would spread and possibly affect oil shipments from the region. Also by mid-month, it had been determined that oil production at Prudhoe Bay would only need to be partially halted instead of completely closed down during pipeline repairs. BP Oil announced that it expected production to be about 200,000 barrels per day, half the normal rate, by the end of the month. Late in the month, along with market technical factors, news of Hurricane Ernesto weakening in the Gulf of Mexico further dampened prices in key world markets.

After reaching high levels early in the month, prices for crude oil and refined products in the United States declined firmly during August. Besides international political matters, prices were affected by comfortable stock levels, storms bypassing major oil production and refining centers in the Gulf Coast region, and gen-

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					
	August 2006		July 2006		August 2005		August 2006		July 2006		August 2005	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
Motor Gasoline	248.8	60.7	253.0	60.0	208.0	61.2	226.4	335.9	239.5	319.1	195.5	341.0
Conventional	243.4	35.5	245.6	34.6	203.8	35.8	222.2	235.8	234.0	221.9	192.3	229.7
Regular	241.0	30.5	243.6	29.7	201.8	30.1	220.5	208.5	232.3	197.1	190.7	198.4
Midgrade	253.4	2.8	253.9	2.8	210.5	3.3	229.4	9.9	241.8	8.1	198.8	12.8
Premium	263.5	2.2	263.6	2.1	220.0	2.4	238.5	17.5	249.5	16.7	204.2	18.5
Oxygenated	258.1	1.8	258.9	1.8	213.6	1.7	240.0	7.6	247.8	7.1	201.1	8.2
Regular	255.9	1.6	257.0	1.5	212.3	1.4	239.4	6.3	247.1	5.9	200.5	6.7
Midgrade	268.9	0.1	266.8	0.1	216.8	0.2	239.3	0.8	248.0	0.8	202.2	1.0
Premium	277.0	0.1	275.6	0.1	226.4	0.1	250.2	0.5	256.7	0.5	208.1	0.5
Reformulated	256.4	23.4	263.4	23.6	214.0	23.7	235.8	92.5	252.5	90.0	202.4	103.1
Regular	252.6	18.3	259.8	18.5	210.6	18.4	232.8	76.7	250.2	74.6	200.0	85.5
Midgrade	264.6	2.4	271.1	2.5	221.5	2.6	245.3	3.4	258.9	3.4	208.7	4.2
Premium	275.1	2.6	281.4	2.6	229.1	2.7	251.7	12.4	265.2	12.1	215.6	13.3
Aviation Gasoline	305.9	0.1	310.3	0.1	238.6	0.1	284.4	0.8	287.3	0.7	230.4	0.7
Kerosene-Type Jet Fuel	223.0	43.9	217.8	43.8	185.3	47.9	221.7	14.4	217.4	14.2	184.7	14.4
Propane (Consumer Grade)	136.6	1.8	136.6	1.5	107.7	2.7	111.1	36.3	110.8	32.1	93.2	26.7
Kerosene	256.1	0.0	NA	0.0	203.2	NA	229.6	1.0	225.8	0.9	194.3	1.7
No. 1 Distillate	251.9	0.1	240.2	0.1	201.6	0.2	238.0	0.7	231.5	0.4	195.2	0.6
No. 2 Distillate	238.2	19.4	227.9	18.1	193.7	19.8	231.9	135.7	222.8	134.8	188.3	147.3
No. 2 Fuel Oil	221.5	0.8	214.1	0.9	186.1	2.0	206.5	12.3	200.6	12.3	178.4	19.0
No. 2 Diesel Fuel	238.9	18.6	228.6	17.2	194.6	17.8	234.4	123.4	225.0	122.5	189.8	128.3
Low Sulfur	243.0	13.5	233.3	12.2	197.2	12.1	236.7	110.0	227.7	107.2	190.6	112.3
High Sulfur	227.9	5.0	216.9	5.0	189.0	5.7	216.1	13.3	206.1	15.3	184.1	15.9
No. 4 Fuel^a	W	W	W	W	W	W	W	W	W	W	152.0	NA
Residual Fuel Oil	130.5	10.4	127.8	10.0	110.6	10.7	123.9	8.7	119.5	7.2	115.1	3.4
Sulfur Content not > 1 %	145.1	2.6	145.1	2.0	129.2	3.9	131.4	3.2	128.4	2.2	133.1	2.0
Sulfur Content > 1 %	125.6	7.7	123.3	7.9	100.0	6.8	NA	NA	115.7	5.1	90.7	1.4

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."

erally smooth refinery operations. At the start of the month, Tropical Storm Chris caused concern as to whether it would move into the Gulf of Mexico and disrupt oil production and refining operations. Fearing a repeat of last year's storms in the area, market prices rose in response to the threat. Although prices eased when the National Hurricane Center downgraded the storm on August 4, the closure of the Prudhoe Bay oil field shortly after that, underpinned prices for several more days. Prudhoe Bay is the largest oil field in the United States and accounts for approximately 8 percent of domestic U.S. crude oil production. However, a number of events occurred almost simultaneously during the second week of August, driving prices lower. The thwarted terrorist bombing plot in Britain on Au-

gust 10 dampened oil product prices because of fears the plot would have a significant impact on economic stability and growth. Further, crude oil prices were affected by the announcement of repairs to a Nigerian oil pipeline and gasoline prices were affected by reports indicating stocks were adequate to meet demand for the rest of the summer "driving" season. The sizeable decline in gasoline prices seen during the coming weeks also pressured crude oil prices as refining margins shrank substantially. The West Texas Intermediate (WTI) crude oil to gasoline crack spread began August at 57.9 cents per gallon, but closed the month at 17.1 cents per gallon. With the profitability of producing gasoline falling so rapidly and profoundly, refiners moved their attention to producing distillate fuel,

whose margin remained relatively stable in comparison to gasoline. A review of selected monthly average spot market prices further illustrates the changes that occurred in oil product prices during August. Although the August 2006 average spot price of \$73.04 per barrel for WTI crude oil at Cushing, Oklahoma was still well above the \$64.99 per barrel average seen for August 2005, it was \$1.37 lower than last month's average price of \$74.41 per barrel. As noted earlier, the spot market price for regular gasoline at New York Harbor shows significant changes and volatility. While the difference between the August and July 2006 monthly averages (\$2.237 per gallon and \$2.038 per gallon, respectively) shows an appreciable decline of 19.9 cents per gallon, perhaps more notably, the price ranged 69.6 cents between August's high and low points. The August 2005 average price was \$1.937 per gallon. In contrast, the New York Harbor monthly average price for No. 2 fuel oil increased to \$1.935 per gallon in August from July's level of \$1.984 per gallon. The average price one year ago was \$1.804 per gallon.

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

Crude Oil

After reaching a new record-setting high early in August, the daily spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma declined firmly during the rest of the month. Opening at \$74.56 per barrel, the price continued its upward trajectory during the first week of the month, reaching the new high of \$77.05 per barrel on August 7 following BP Oil's shutdown of the Prudhoe Bay oil field. Pressured by the thwarted airliner bombing plan and the repaired crude oil pipeline in Nigeria, the price waned during the following weeks. Despite some volatility during the latter part of the month, the price continued to recede from the record high levels seen in July and early August. After reaching its low of \$69.74 per barrel on August 29, the price closed the month at \$70.38 per barrel, \$4.18 below its opening level for August.

- Monthly average crude oil prices fell in all categories of sales in August. The average domestic crude oil first purchase price declined 40.0 cents (0.6 percent) to \$67.32 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil decreased \$2.82 (4.3 percent), to \$63.03 per

barrel. The average landed cost of foreign crude oil fell \$2.48 (3.6 percent), to \$65.70 per barrel.

- The average refiner acquisition cost for domestic crude oil declined 21.0 cents (0.3 percent), to \$70.36 per barrel. The average cost of imported crude oil to U.S. refiners dropped \$1.80 (2.6 percent), to \$66.19 per barrel, while the composite refiner acquisition cost for crude oil fell \$1.33 (1.9 percent), to \$67.54 per barrel.

Petroleum Products

Motor Gasoline

The daily spot price for regular gasoline at New York Harbor fell significantly during August. Opening at \$2.289 per gallon, the price moved quickly to the month's high of \$2.459 per gallon on August 2, due to the projected path of Tropical Storm Chris towards the Gulf of Mexico. However, the diminished threat of the storm, coupled with and the perception of adequate gasoline supplies through the rest of the driving season steered the price into decline. Continuing its descent through the rest of the month, the price reached its low of \$1.763 per gallon on August 28. Rebounding slightly at the end of the month, the price closed August at \$1.846 per gallon, 44.3 cents below the month's opening level.

- August monthly average prices for finished gasoline dropped across the board from July levels. The average price for retail sales of motor gasoline by refiners fell 4.2 cents to \$2.488 per gallon, while the average wholesale price sank 13.1 cents to \$2.264 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets decreased 3.6 cents to \$2.488 per gallon. The average wholesale price for gasoline declined 13.3 cents to \$2.266 per gallon. The average dealer tank wagon (DTW) price dropped 11.4 cents to \$2.354 per gallon, while the average rack price fell 15.8 cents to \$2.246 per gallon. The average bulk sale price decreased 5.2 cents to \$2.184 per gallon. Reformulated gasoline prices continued to outstrip conventional gasoline prices in August. Reformulated gasoline prices were 10.3 cents more at retail, and 12.1 cents higher at wholesale. Oxygenated gasoline prices were 9.8 cents more than conventional gasoline prices at retail, and 16.9 cents higher at wholesale.

- Refiner sales of motor gasoline generally increased in August. Total sales rose 17.5 million gallons per day (4.6 percent) to an average of 396.6 million gallons per day. Retail sales increased 700,000 gallons per day (1.2 percent), while wholesales climbed 16.8 million gallons per day (5.3 percent). Rack sales made up 70.9 percent of wholesales, while DTW and bulk sales accounted for 13.5 percent and 15.6 percent, respectively. Reformulated gasoline amounted to 29.2 percent of total motor gasoline sales, while oxygenated gasoline accounted for 2.4 percent of sales.

No. 2 Distillate

At New York Harbor, the No. 2 heating oil daily spot price exhibited the least volatility in the complex during August. Opening at \$2.103 per gallon, its highest point for the month, the price fluctuated moderately during the coming weeks due to a variety of issues including threats of storms in the Gulf Coast region, trends in natural gas prices, and market technical factors associated with coming heating season. Closing at \$1.900 per gallon, its lowest point for the month, the price was 20.3 below its opening level for August.

- No. 2 distillate prices rose in all categories again during August. The national average residential sales price increased 3.3 cents to \$2.504 per gallon, while the average wholesale price climbed 9.1 cents to \$2.329 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets rose 9.3 cents, while the average wholesale price for No. 2 diesel fuel increased 9.5 cents. The difference between low- and high-sulfur diesel fuel prices was 16.1 cents at retail, and 17.6 cents at wholesale.
- Overall, sales of No. 2 distillates by refiners increased in August. Total sales climbed 2.3 million gallons per day (1.5 percent), to 155.1 million gallons per day. Sales of No. 2 fuel oil remained essentially flat, while sales of No. 2 diesel fuel increased 2.3 million gallons per day (1.6 percent). Low-sulfur diesel fuel made up 87.0 percent of all refiner diesel fuel sales, and 79.6 percent of all refiner No. 2 distillate sales.

Residual Fuel Oil

- Generally, residual fuel oil prices increased modestly during August. Refiner prices for low-sulfur residual fuel oil remained flat at \$1.451 per gallon at retail, but rose 3.0 cents to \$1.314 per gallon at wholesale. The average refiner retail price for high-sulfur residual fuel oil climbed 2.3 cents to \$1.256 per gallon. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil increased 2.0 cents to \$1.395 per gallon at retail, and by 2.5 cents to \$1.304 per gallon at wholesale. The retail price for high-sulfur residual fuel oil rose 2.4 cents to \$1.257 per gallon, while the wholesale price increased 4.9 cents to \$1.206 per gallon.
- August refiner sales of residual fuel oil increased from July levels. Total sales rose 1.9 million gallons per day (11.0 percent), to 19.1 million gallons per day. Low-sulfur residual fuel oil sales climbed 1.6 million gallons per day (38.1 percent).

Other Products

- Prices for the remaining surveyed products rose for the most part during August. The refiner retail price for propane remained unchanged from July's level, while the wholesale price inched up 0.3 cent per gallon. Including data from a sample of propane marketers, the average residential price climbed 1.6 cents, while the average retail price increased 0.4 cent per gallon. The average wholesale propane price increased 0.2 cent per gallon. Prices for kerosene-type jet fuel, kerosene, and No. 1 distillate increased at both levels, while aviation gasoline prices declined at both retail and wholesale.
- Refiner sales of many products included in this section increased in August. Sales of propane, kerosene-type jet fuel, and aviation gasoline rose at both retail and wholesale, while kerosene and No. 1 distillate sales fell at retail, but increased at wholesale.