

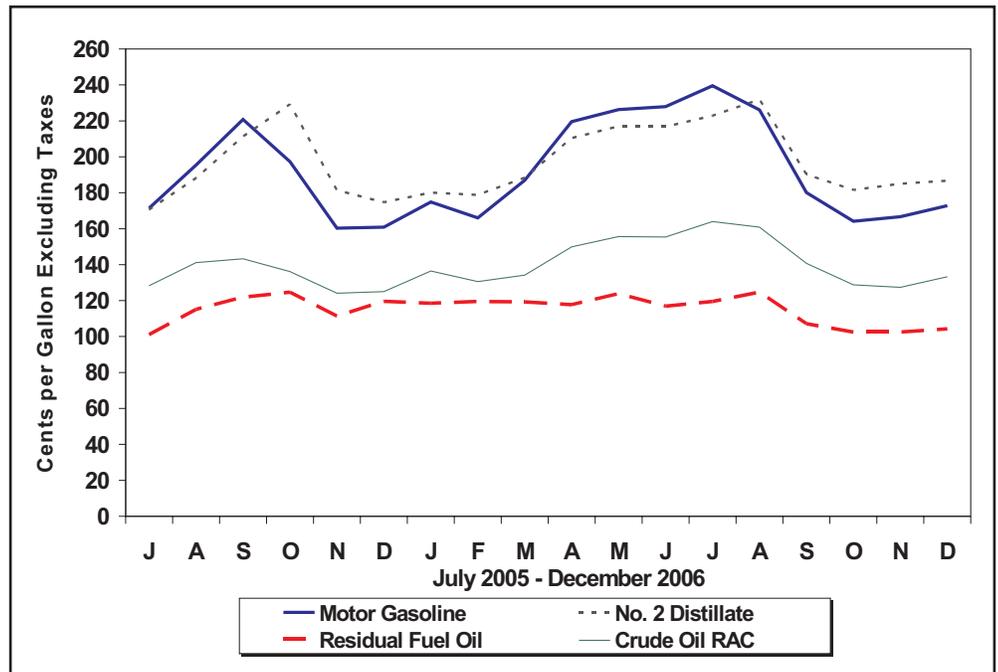
# Highlights

Following the sharp upturn during the latter part of November, international crude oil prices eased gradually during December. The decline was chiefly the result of ample crude oil and refined products inventories coupled with slower demand. More specifically, unseasonably mild weather in the Northern Hemisphere, especially in Atlantic Basin markets, dampened demand for products used for heating purposes. These fundamental conditions paired with the expectation that crude oil supplies will be adequate to meet demand in the short-term shaped the downward trend in market prices. Despite the overall bearish tone of the market, a short-lived rise in prices followed the decision by the Organization of Oil Exporting Countries (OPEC) on December 14 to cut production output by 500,000 barrels per day, as of February 1, 2007. U.S. weekly inventory data showing unexpected declines in supply levels underpinned the impact of that decision. Despite more attacks on oil industry infrastructure and personnel in Nigeria, and Iranian threats to use oil exports as a means to defend itself in a dispute with Western nations over its nuclear fuels program, geopolitical issues failed to temper the decline in prices.

Following their increase at the end of November, prices for crude oil and refined products in the United States experienced comparatively limited changes in December. A return of mild temperatures along with robust product stocks restrained prices in markets across the country. Following an extended period of maintenance activities involving many facilities around the country in recent months, rising refinery production rates also influenced prices. On the West Coast, delays in the restart of one refinery in the Los Angeles area caused the regional spot market

price for CARB diesel fuel to remain above two dollars per gallon for the first two weeks December. The price dropped precipitously once the facility came back on-line at mid-month. Product prices across regional markets experienced a short-lived increase in response to news of the OPEC decision to cut production again and to larger-than-expected drops in natural gas and heating oil inventories. Additionally, gasoline stocks registered a slight decline when it was expected they would rise. Shipping delays also affected crude oil prices due to heavy fog along the Gulf Coast. The Houston Ship Channel was fogged in for six days, finally reopening to traffic at midday on December 19. Prices continued to drop from the month's opening levels following the long Christmas holiday weekend and through the close of the year. Monthly average spot market prices for some major petroleum products characterize some market trends seen during December. The December 2006 price for West Texas Intermediate (WTI) crude oil

**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					
	December 2006		November 2006		December 2005		December 2006		November 2006		December 2005	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
<b>Motor Gasoline</b> .....	186.8	56.5	178.9	57.5	173.9	59.4	172.8	315.3	166.7	307.3	160.8	324.1
<b>Conventional</b> .....	182.5	32.1	176.0	32.7	172.8	32.8	169.3	213.8	164.3	206.0	159.6	215.2
Regular .....	180.1	27.3	173.7	27.8	170.7	27.7	167.7	187.6	162.6	179.5	158.4	187.3
Midgrade .....	191.3	2.6	184.1	2.7	179.6	2.9	173.9	9.0	169.8	9.2	163.6	11.5
Premium .....	202.9	2.1	195.4	2.2	190.6	2.2	183.9	17.1	178.9	17.2	170.8	16.5
<b>Oxygenated</b> .....	189.0	2.0	183.7	2.3	176.4	2.8	174.8	11.3	171.0	11.4	162.5	10.8
Regular .....	186.7	1.7	181.6	1.9	174.3	2.3	173.5	9.3	169.8	9.3	161.4	8.8
Midgrade .....	198.9	0.1	189.4	0.2	182.1	0.3	174.3	1.0	171.1	1.0	164.2	1.1
Premium .....	209.8	0.1	201.8	0.2	192.1	0.2	187.1	1.0	183.0	1.0	172.8	0.8
<b>Reformulated</b> .....	192.8	22.4	182.6	22.6	175.1	23.8	180.7	90.2	171.9	90.0	163.3	98.2
Regular .....	188.7	17.2	178.4	17.4	171.2	18.3	178.0	74.5	169.2	74.2	161.1	81.3
Midgrade .....	201.4	2.4	191.2	2.4	182.0	2.7	186.5	3.3	178.1	3.3	168.6	3.9
Premium .....	211.1	2.7	201.5	2.8	193.5	2.9	195.5	12.4	186.2	12.5	175.3	13.0
<b>Aviation Gasoline</b> .....	234.9	0.1	235.3	0.1	219.3	0.1	217.2	0.4	213.9	0.5	200.4	0.3
<b>Kerosene-Type Jet Fuel</b> .....	193.5	40.1	179.9	40.3	176.1	44.5	190.6	15.2	177.8	16.1	173.8	14.1
<b>Propane (Consumer Grade)</b> .....	138.4	3.7	130.7	3.8	152.5	3.8	103.3	50.7	101.3	44.5	106.8	47.2
<b>Kerosene</b> .....	NA	0.3	241.3	0.1	NA	NA	200.7	1.7	194.4	1.9	195.0	3.7
<b>No. 1 Distillate</b> .....	218.4	0.3	216.5	0.2	192.6	0.4	223.7	1.4	220.9	1.6	199.1	3.5
<b>No. 2 Distillate</b> .....	195.7	17.2	191.3	18.1	181.4	18.8	186.7	135.7	185.0	141.0	175.0	141.5
No. 2 Fuel Oil .....	196.9	0.9	190.9	1.0	186.8	2.4	175.4	19.5	169.9	15.6	172.4	25.1
No. 2 Diesel Fuel .....	195.6	16.3	191.3	17.1	180.6	16.4	188.6	116.2	186.8	125.4	175.5	116.4
Low Sulfur .....	201.2	11.2	196.0	12.1	183.7	11.4	190.9	100.2	188.6	110.7	176.3	97.9
High Sulfur .....	183.3	5.1	179.9	5.0	173.5	5.0	174.2	16.0	173.7	14.7	171.4	18.5
<b>No. 4 Fuel<sup>a</sup></b> .....	W	W	W	W	W	W	145.6	0.2	136.7	0.2	166.3	0.1
<b>Residual Fuel Oil</b> .....	109.9	10.0	108.7	11.1	119.5	11.4	104.3	10.2	102.5	7.3	119.6	5.9
Sulfur Content not > 1 % .....	119.9	3.1	117.6	3.0	134.6	4.5	113.3	4.8	115.9	2.4	129.3	3.5
Sulfur Content > 1 % .....	105.3	6.8	105.3	8.0	109.6	6.8	96.2	5.4	95.9	4.9	105.7	2.4

NA = Not available.

W = Withheld to avoid disclosure of individual company data.

<sup>a</sup> 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."

at Cushing, Oklahoma averaged \$61.96 per barrel, up \$2.88 from last month's average of \$59.08 per barrel, and \$2.55 above the December 2005 price of \$59.41 per barrel. At New York Harbor, the average spot price for regular gasoline was \$1.670 per gallon in December 2006, up 8.2 cents from November's average of \$1.588 per gallon. The December 2005 price was 1.600 per gallon. The New York Harbor monthly average price for No. 2 fuel oil was \$1.684 per gallon this month, 3.5 cents high than the November 2006 average of \$1.648 per gallon. The December 2005 price was \$1.707 per gallon.

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

## Crude Oil

December was a relatively quiet month for the WTI crude oil daily spot price at Cushing, Oklahoma. After opening at \$62.97 per barrel, the price registered the month's high of \$63.43 per barrel on December 1. The increase was driven by talk of more production cuts by OPEC. While it experienced a modest decline during the next few weeks, the price rose again at mid-month due to the announcement of another round of production cuts by OPEC. Larger-than-expected decreases reported in weekly U.S. oil products inventory data also underpinned the increase. The price eased gradually through the end of the month, thanks to continued mild weather and adequate stock levels. After reaching its low of \$60.31 per barrel on December 27, the price closed the month at \$60.85 per barrel, \$2.12 below its opening level for December.

- December monthly average crude oil prices increased from November levels. The average domestic crude oil first purchase price rose \$2.52 (4.8 percent) to \$54.94 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil edged up 52 cents (1.0 percent) to \$52.20 per barrel. The average landed cost of foreign crude oil rose 98 cents (1.8 percent), to \$54.15 per barrel.
- The average refiner acquisition cost for domestic crude oil increased \$2.37 (4.3 percent), to \$57.81 per barrel. The average cost of imported crude oil rose \$2.47 (4.7 percent) to \$54.99 per barrel, while the composite refiner acquisition cost for crude oil climbed \$2.48 (4.6 percent), to \$55.99 per barrel.

## Petroleum Products

### *Motor Gasoline*

The daily spot price for regular gasoline at New York Harbor was the most unsettled one in the petroleum products complex during December. After opening at \$1.749 per gallon, the price fell steadily during the first half of the month. Robust stock levels fed by plentiful imports and rising refinery production helped fuel the decline. Following the OPEC announcement and many days of fog-induced vessel traffic delays in the Houston Ship Channel and other waterways along the Gulf Coast, the price reached the month's high of \$1.785 per gallon on December 19. The price fell appreciably during the latter part of the month along with the complex as whole. After dropping to its low of \$1.587 per gallon on December 26, the price rebounded moderately and closed the month at \$1.643 per gallon, 10.6 cents below its opening level.

- December monthly average prices for finished gasoline increased from November levels. The average price for retail sales of motor gasoline by refiners rose 7.9 cents to \$1.868 per gallon, while the average wholesale price climbed 6.1 cents to \$1.728 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets increased 8.0 cents to \$1.869 per gallon. The average wholesale price for gasoline rose 6.0 cents to \$1.734 per gallon. The average dealer tank wagon (DTW) price climbed 7.3 cents to \$1.800 per gallon, while the average rack price increased 5.8 cents to \$1.725 per gallon. The av-

erage bulk sale price rose 6.1 cents to \$1.640 per gallon. The difference between reformulated and conventional gasoline prices was 9.3 cents at retail, and 10.7 cents at wholesale. Oxygenated gasoline prices were 4.5 cents higher than conventional gasoline prices at retail, and 5.2 cents more at wholesale.

- Overall, refiner sales of motor gasoline increased in December. Total sales climbed 7.0 million gallons per day (1.9 percent) to an average of 371.8 million gallons per day. Retail sales decreased 1.0 million gallons per day (1.7 percent), while wholesales rose 8.0 million gallons per day (2.6 percent). Rack sales explained 71.7 percent of wholesales, while DTW and bulk sales accounted for 14.4 percent and 13.9 percent, respectively.

### *No. 2 Distillate*

Due to unseasonably warm temperatures and robust stock levels, the daily spot price for No. 2 heating oil at New York Harbor declined during December. After opening at \$1.785 per gallon, the price registered the month's high of \$1.809 per gallon on December 1. It fell firmly after that due to predictions for more above-average temperatures in the key heating oil-consuming Northeast region of the country. Following a brief rise at mid-month, the price continued to decline through the end of the month. The low of \$1.584 per gallon was struck on December 27. Closing the month at \$1.601 per gallon, the price was 18.4 cents lower than its opening level for December.

- No. 2 distillate prices show moderate increases in December. The national average residential sales price rose 3.5 cents to \$2.370 per gallon, while the average wholesale price climbed 1.8 cents to \$1.882 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets increased 5.9 cents, while the average wholesale price for No. 2 diesel fuel rose 1.8 cents. The difference between low- and high-sulfur diesel fuel prices was 14.3 cents at retail, and 15.2 cents at wholesale.
- Refiner sales of No. 2 distillates fell again in December. Total sales declined 6.1 million gallons per day (3.9 percent), to 152.9 million gallons per day. Sales of No. 2 fuel oil increased 3.9 million gallons per day (23.3 percent), while sales of No. 2 diesel fuel decreased 10.0 million gallons per day (7.0 percent). Low-sulfur diesel fuel made up 84.1 percent of all refiner diesel fuel sales, and 72.8 percent of all refiner No. 2 distillate sales.

## *Residual Fuel Oil*

- Trends in residual fuel oil prices were mixed in December. Refiner prices for low-sulfur residual fuel oil increased 2.3 cents to \$1.199 per gallon at retail, but fell 2.6 cents to \$1.133 per gallon at wholesale. The average refiner price for high-sulfur residual fuel oil remained flat at \$1.053 per gallon at retail, and inched up 0.3 cent to 96.2 cents per gallon at wholesale. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil rose 1.7 cents to \$1.214 per gallon at retail, but declined 2.7 cents to \$1.124 per gallon at wholesale. The retail price for high-sulfur residual fuel oil rose 0.3 cent to \$1.057 per gallon, while the wholesale price fell 0.2 cent to 96.2 cents per gallon.
- Sales of residual fuel oil by refiners increased during December. Total sales rose 1.8 million gallons per day (9.8 percent), to 20.2 million gallons per day. Low-sulfur residual fuel oil sales climbed 2.5 million gallons per day (46.3 percent), while high-sulfur residual fuel oil sales fell 700,000 gallons per day (5.4 percent).

## *Other Products*

- Most prices for the remaining surveyed products increased during December. Refiner prices for propane rose 7.7 cents per gallon at retail, and 2.0 cents per gallon at wholesale. Including data from a sample of propane marketers, the average residential price increased 3.9 cents per gallon, while the average retail price climbed 7.1 cents per gallon. The average wholesale propane price rose 2.1 cent per gallon. Prices for kerosene-type jet fuel and No. 1 distillate rose at both levels. Aviation gasoline prices fell at retail, but rose at wholesale. Wholesale prices for kerosene and No. 4 distillate also increased in December.
- Refiner sales of the remaining surveyed products were mixed in December. Sales of propane declined at retail, but rose at wholesale, while sales of kerosene and No. 1 distillate did just the opposite. Kerosene-type jet fuel and aviation gasoline sales declined at both levels, while sales of No. 4 distillate decreased at wholesale.