

Highlights

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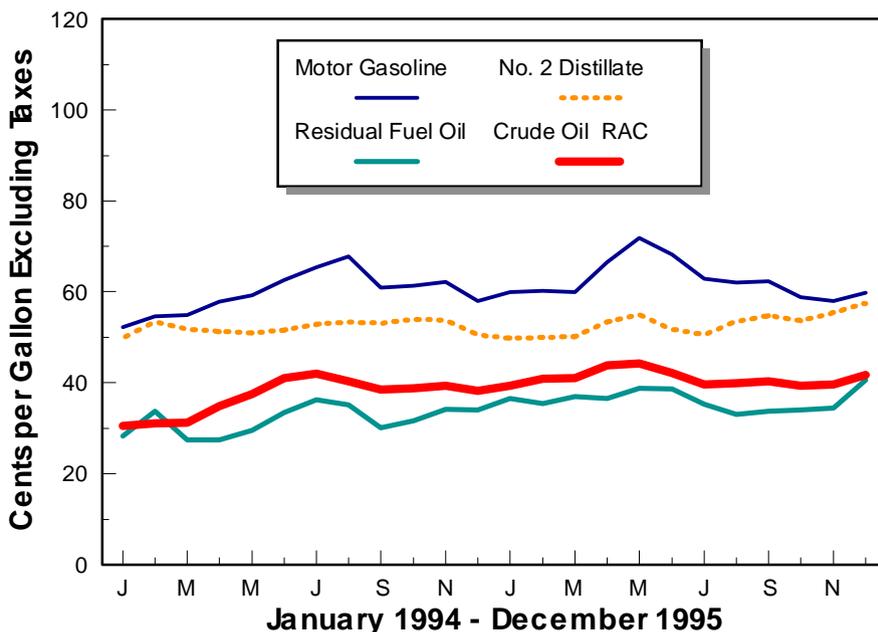
1995 Year in Review

International crude oil prices followed an invigorated course during 1995, with few incidents causing prices to move significantly outside the norm. The most significant factors to affect crude oil prices were reductions in inventory levels and severe weather, particularly in North America. While political affairs influenced prices periodically, they did not exert an unprecedented level of control over market activity.

The year began on a fairly ordinary note as mild winter weather in much of the Northern Hemisphere allowed ample wellhead production of crude oil and

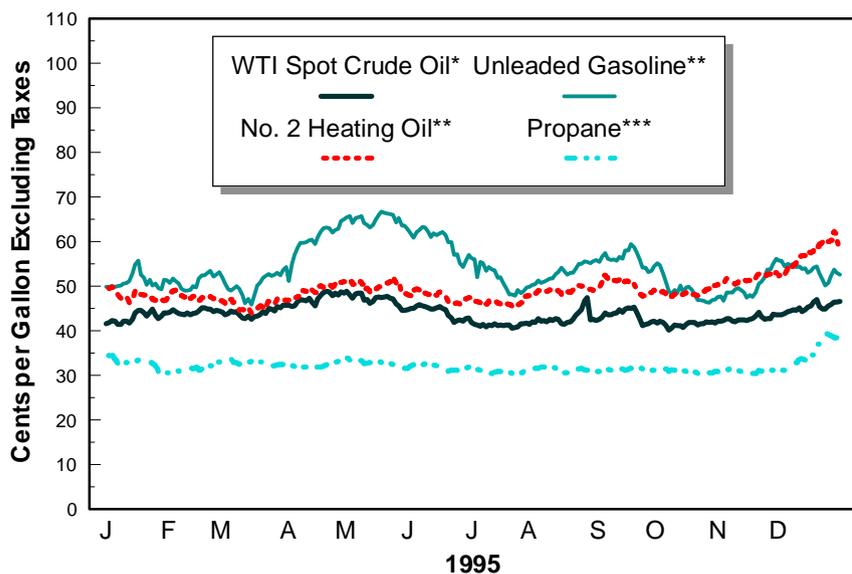
caused few interruptions in the associated product transport systems over the course of the season. However, demand rising from the customary spring-time inventory build along with reports of thin stock levels, temporary drops in production rates, and anticipation of a banner year for consumption of gasoline culminated with prices for several benchmark crude streams reaching their high points for 1995 by the beginning of May. With a return to robust production levels and no serious disruptions at production facilities and in supply systems, crude oil prices began to drop steadily as inventories grew, especially during the summer months. Additional downward

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."

Figure HL2.U.S. Spot Prices of Crude Oil and Petroleum Products



* West Texas Intermediate at Cushing, Oklahoma.

** New York Harbor

*** Mt. Belvieu, Texas

Source: Reuter Information Services, New York, New York.

In the United States, January 1 marked the beginning for the Federally mandated use of reformulated gasoline (RFG) at the retail level in regions that exceeded the acceptable levels of ozone pollution. Fears of excessively high prices and generalized supply problems proved undue after a relatively short period of time. The opt-out areas in New York State, Pennsylvania, and Maine did create some temporary turmoil, but the regional markets adjusted in a timely fashion. The issue of requiring the use of oxygenated gasoline heated up by the end of the year in several areas on the East Coast, but most notably in New Jersey where the 6 month control period was shortened to 4 months. The change caused some concern at the NYMEX

pressure came from falling prices for refined products in major world markets, which were also experiencing a growth in stocks. By the middle of the year it became evident that the Organization of Petroleum Exporting Countries (OPEC) was unable to agree to an adjustment in production levels that would satisfy individual members' wishes to maintain revenue levels without adverse effects on other group members. Consequently, the additional supply of product became a low key factor that helped to influence prices during pertinent points for the rest of the year. By September, prices began a short-lived rise based mostly on low stock levels in the United States and was exacerbated by a very active hurricane season in the Caribbean and Gulf of Mexico. After a short-term slip, prices began a steady rise based on an unusually early and blustery start to the winter season in North America and Europe. By the end of December, cold weather had become the primary factor behind significant stock drawdowns of crude oil and heating fuels and also caused unanticipated reductions in crude oil output from non-OPEC producers, contrary to the beginning of 1995.

since futures contracts were predicated on the use of oxygenated gasoline through the end of April. Several other areas including Baltimore, Washington, D.C., and Philadelphia were allowed to opt-out of the oxygenated gasoline program at the beginning of the 1995/96 season.

The move towards maintaining lower stock levels of products, increased demand, and unforeseen weather trends proved to be the most enduring and influential factors affecting product prices in the U.S. Both crude oil and finished product prices generally followed the trends seen in comparable international markets. Following a typical yearly pattern, prices for all products rose in the spring, but especially for gasoline due to relatively low inventories and an anticipated rise in consumption for the summer driving season. Data reflecting demand for gasoline indicates an approximate 2.5 percent overall growth for 1995 and also shows a clear and consistent trend of lower stock levels. A more modest and less uniform trend is also evident for distillate fuel oil with demand rates rising about 1.4 percent for 1995. As cold weather made an early and pronounced arrival, especially on the East

Coast, demand rose for heating fuels and prices which had been soft for much of the year rose over 7 cents per gallon during the final 2 months of the year.

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 at Cushing, Oklahoma, generally followed a path similar to other international benchmark crude prices. The price averaged \$18.43 per barrel and ranged \$3.67 per barrel over the course of 1995. Opening the year at \$17.77 per barrel, the price gained some strength and stayed within a \$17 to \$18 per barrel range for most of the next 3 months. The price began to rise at the end of March, largely due to the combination of refiners gearing up for the driving season and reports of reduced stock levels. After reaching the year's high of \$20.53 per barrel on May 1, the price eased gradually during the next several months, but spiked dramatically at the end of August, again driven by reports of thin stocks. After reaching the low of \$16.86 per barrel on October 5, the price began to gain strength based on stock draw-downs and inclement weather, closing the year at \$19.54 per barrel.

- Crude oil prices show marked increases from average 1994 levels in all categories of sales. The average domestic crude oil first purchase price gained \$1.43 per barrel (10.8 percent), to \$14.62 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil rose \$1.51 (10.6 percent), to \$15.69 per barrel. The average landed cost of foreign crude oil gained \$1.60 (10.5 percent), to \$16.78 per barrel.
- The average refiner acquisition cost of domestic crude oil increased 1.66 (10.6 percent), to \$17.33 per barrel. The average cost of imported crude oil to U.S. refiners rose \$1.63 (10.5 percent), to \$17.14 per barrel. The composite refiner acquisition cost of crude oil in the United States climbed \$1.64 cents (10.5 percent), to \$17.23 per barrel.

Motor Gasoline

The daily spot price at New York Harbor for unleaded regular gasoline varied widely during 1995, ranging almost 21 cents per gallon. Starting the year rather slowly, the price opened at 51.5 cents per gallon and worked its way downward to the year's low of 45.8 cents per gallon on March 14. The price soared upwards from that point based on significant stock draws from already lean inventories and reached the year's high of 66.7 cents per gallon on May 17. The price lost almost as much as it had previously gained as it fell from the high point during the next 2 months as supply levels strengthened. It climbed upwards again, rising well past Labor Day, the traditional end of the driving season and transition to higher distillate production in the U.S, due to a drop in imports of RFG and sustained strong demand for gasoline. However, by the close of the year, the price had lost momentum and ended at 52.6 cents per gallon, only 1.1 cents higher than where it began.

- Average 1995 price data indicate gasoline recouped all of 1994's losses and made small gains in certain categories. The average refiner motor gasoline retail price rose 2.7 cents to 76.5 cents per gallon, while the average wholesale price increased 2.7 cents to 62.6 cents per gallon. Including data reported by the sample of motor gasoline marketers, the national average retail price climbed 3.0 cents, to 76.6 cents per gallon at company-operated retail outlets. The average wholesale price rose 2.8 cents, to 63.0 cents per gallon. The average dealer tank wagon (DTW) price for motor gasoline gained 3.4 cents, to 70.2 cents per gallon. The average rack price rose 3.1 cents to 60.0 cents per gallon, while bulk sales increased 3.4 cents to 53.9 cents per gallon. The average differential between reformulated and conventional gasoline prices was 8.6 cents at the retail level and 12.5 at wholesale. The margin between conventional and oxygenated gasoline prices rose during 1995 to 9.6 cents at retail and 12.2 cents at wholesale.
- Total refiner sales of finished motor gasoline gained 13.0 million gallons (3.9 percent), rising to an average of 344.7 million gallons per day in 1995. Retail sales rose 900,000 gallons per day (1.6 percent), while wholesale sales data indicate a more substantial increase of 12.1 million gallons per day

(4.4 percent). Rack sales explained 60.5 percent of refiner wholesale gasoline volumes, while DTW and bulk sales made up 27.0 percent and 12.5 percent, respectively. Reformulated gasoline (RFG) accounted for 25.2 percent of total motor gasoline sales, while oxygenated gasoline defined 4.3 percent of sales.

No. 2 Distillate

The daily spot price during 1995 for No. 2 heating oil at New York Harbor performed in a similarly dynamic fashion as gasoline, ranging 18.3 cents over the course of the year. Unlike gasoline, the price for No. 2 heating oil remained rather unremarkable until the final quarter of the year. Opening at 51.4 cents per gallon, the price took an overall downward path until reaching the year's low of 44.0 cents per gallon on March 14. Generally following other products' trends, although in a muted fashion, the price rose during the summer and early fall months. At the beginning of the heating season in October the price began to rise steadily and by the middle of November the price started a steep rise based on the early onset of winter weather. After striking the high of 62.2 cents per gallon on December 27, the price lost a little ground and closed at 58.4 cents per gallon.

- Average prices for sales of No. 2 distillate were mixed and less substantial than those seen for gasoline. The national average residential price fell 1.7 cents, dropping to 86.7 cents per gallon. The average wholesale price inched up to 53.6 cents per gallon, reflecting a gain of only 0.7 cent. The average price at company-operated retail outlets for No. 2 diesel fuel was essentially unchanged at 67.0 cents per gallon, reflecting a negative change of only 0.3 cent per gallon. At wholesale, the price rose a marginal 0.8 cent to 54.6 cents per gallon. Low-sulfur diesel fuel prices averaged 3.1 cents per gallon more than high-sulfur diesel at retail and 2.7 cents higher for wholesale.
- Total refiner sales of No. 2 distillate climbed 1.8 million gallons (1.4 percent) to 131.8 million gallons per day during 1995. No. 2 fuel oil sales fell overall, losing 2.0 million gallons per day (5.5 percent) while sales of No. 2 diesel fuel gained 3.8 million gallons per day (4.1 percent). Low-sulfur diesel fuel comprised 77.6 percent of all diesel fuel sales and 57.4 percent of all refiner No. 2 distillate sales over the course of the year.

Residual Fuel Oil

- Residual fuel oil prices rose across the board despite a drop in the volume of sales. Refiner prices for low-sulfur residual fuel increased 3.5 cents to 43.6 cents per gallon for retail sales and 3.8 cents to 38.3 cents per gallon for wholesale. Refiner high-sulfur residual fuel prices rose 4.7 cents to 37.7 cents per gallon at the retail level and 5.1 cents to 33.8 cents per gallon at wholesale. Including data reported by the sample of residual fuel oil marketers, the average low-sulfur price climbed 3.0 cents per gallon for retail sales and 3.3 cents per gallon at the wholesale level. The average price for high-sulfur residual fuel rose 4.9 cents and 4.6 cents for retail and wholesale sales, respectively.
- Total refiner sales of residual fuel oil dropped 4.2 percent during 1995, with sales averaging 25.2 million gallons per day. Low-sulfur residual fuel sales fell 200,000 gallons per day (1.9 percent), while high-sulfur decreased 900,000 gallons per day (5.8 percent).

Other Products

- As is typical for products falling under this heading, average prices for the year were something of a mixed bag. Refiner propane prices dropped 3.8 cents per gallon at retail but rose 2.0 cents at wholesale. Including the sample of propane marketers, the average residential propane price fell a slight 0.7 cent to 86.5 cents per gallon, while the average end-user price dropped 1.0 cent. In contrast, the average wholesale price gained 1.8 cents, rising to 35.4 cents per gallon. Refiner prices for kerosene-type jet fuel averaged only slight increases, rising 0.6 cent to 54.0 cents per gallon at retail and 0.5 cent to 53.9 cents per gallon at wholesale. Prices for aviation gasoline and No. 4 fuel rose at both levels, in contrast to kerosene which dropped at both levels. No. 1 distillate prices decreased at retail and rose at wholesale.
- Refiner sales of other products were also mixed. Sales of propane showed the greatest amount of change, rising 1.0 million gallons per day at retail and 2.2 million gallons per day at wholesale. Kerosene-type jet fuel sales also rose, gaining 500,000 gallons and 800,000 gallons per day for retail and wholesale, respectively. Kerosene, No. 1 distillate, aviation gasoline, and No. 4 distillate showed only minor changes at both retail and wholesale levels.