

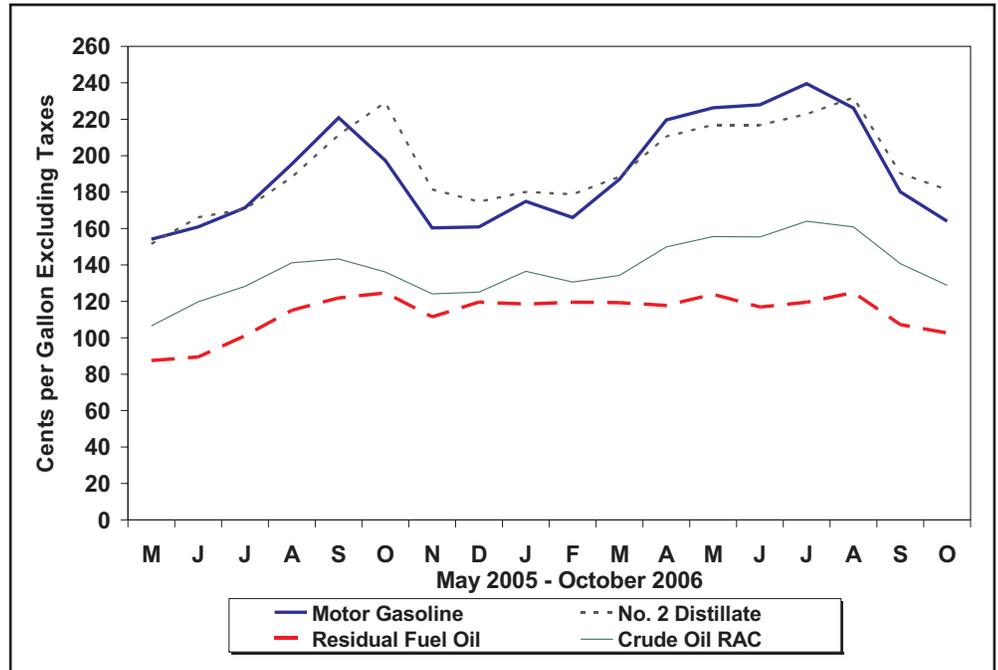
# Highlights

The significant fluctuations seen in international crude oil prices during the past few months moderated in October, largely in response to lower demand and more comfortable stock levels in global markets. Mild weather in Northern Hemisphere markets and less pressure from political issues also tempered prices. At the beginning of the month, crude oil production in Alaska rose to a near-normal rate following repairs to sections of damaged pipeline. The pipeline closure, which caused a shutdown of production operations at Prudhoe Bay, noticeably influenced prices in early September. Additionally, the absence of any significant storms in key oil producing areas this year also weighed on prices at the end of the hurricane season. Although geopolitical issues exerted less influence on oil prices in October than in recent months, they remained a factor in market price trends. While the standoff between Western nations and Iran over its nuclear fuels program was more muted during October, the political troubles in Nigeria continued throughout the month. Royal Dutch Shell, one of the major foreign oil companies operating in Nigeria, announced that restoring oil production to last year's level in 2006 was unlikely due to security concerns stemming from civil unrest in the Niger Delta region. Prices were also affected in late-October by the possibility of production cuts from the Organization of Oil Exporting Countries (OPEC). On October 19, the group voted to cut output by 1.2 million barrels per day, beginning on November 1. Although prices rose modestly before the meeting, some market watchers believed the cuts had been anticipated for some time thus muting the effect of the decision on prices throughout world markets. At the end of the month, prices rose briefly in response to threats of a terrorist at-

tack on oil industry facilities in Saudi Arabia. By the close of October, prices retreated after the assault failed to materialize.

Price trends for crude oil and refined products in U. S. markets were also less volatile in October. Robust products stocks, particularly in the Northeast region of the country, the near-complete return of production operations at Prudhoe Bay, Alaska, quiet weather trends, and lower demand for many petroleum products all contributed to softening prices. Because of well-set inventories and lower demand, crude oil prices continued to ease from the record-setting levels seen in late summer. More specifically, the price for West Texas Intermediate (WTI) crude oil hit its lowest level for 2006 thus far on October 20, thanks to lower demand stemming from facility maintenance and thinner refining margins. A notable exception occurred late in the month following the production cut an-

**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					
	October 2006		September 2006		October 2005		October 2006		September 2006		October 2005	
	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume	Price	Volume
<b>Motor Gasoline</b> .....	178.4	59.1	207.8	58.4	226.2	57.1	164.0	309.4	180.1	317.3	197.0	310.0
<b>Conventional</b> .....	174.3	34.0	201.5	34.0	223.8	33.6	161.2	207.4	175.1	218.5	194.2	203.1
Regular .....	171.6	28.9	198.4	29.0	221.4	28.6	159.5	181.6	173.5	192.0	193.0	177.4
Midgrade .....	184.4	2.8	214.2	2.8	232.7	2.9	165.8	9.3	178.8	9.2	196.8	10.8
Premium .....	196.1	2.3	225.2	2.3	244.3	2.1	176.5	16.5	190.6	17.3	206.8	14.9
<b>Oxygenated</b> .....	NA	NA	206.7	1.5	220.9	2.1	170.2	10.3	185.6	8.1	195.4	9.7
Regular .....	NA	NA	204.3	1.3	217.9	1.7	168.8	8.4	184.2	6.6	194.3	8.0
Midgrade .....	194.5	0.1	217.4	0.1	234.5	0.2	169.5	1.0	184.4	0.9	193.5	1.0
Premium .....	203.1	0.1	232.0	0.1	241.0	0.1	184.1	0.9	201.8	0.6	211.3	0.7
<b>Reformulated</b> .....	183.9	23.2	217.3	23.0	230.5	21.4	169.7	91.7	191.5	90.7	203.1	97.3
Regular .....	179.5	17.9	212.6	17.7	226.9	16.5	166.9	74.8	188.1	74.8	200.3	79.6
Midgrade .....	193.1	2.5	227.4	2.5	237.5	2.3	177.8	3.3	203.7	3.2	213.7	3.7
Premium .....	203.7	2.9	238.5	2.8	246.7	2.6	183.0	13.6	208.0	12.8	215.9	14.0
<b>Aviation Gasoline</b> .....	238.4	0.1	253.2	0.1	270.8	0.1	211.5	0.5	231.9	0.6	245.1	0.4
<b>Kerosene-Type Jet Fuel</b> .....	183.2	40.7	199.8	41.3	235.2	42.8	181.6	17.2	194.7	18.6	233.5	14.0
<b>Propane (Consumer Grade)</b> .....	NA	2.5	126.6	2.6	147.2	2.7	100.4	43.1	103.2	37.6	111.6	36.1
<b>Kerosene</b> .....	250.2	0.0	251.3	0.0	226.2	0.1	191.9	1.8	203.7	1.4	227.1	1.5
<b>No. 1 Distillate</b> .....	209.1	0.2	222.6	0.1	248.2	0.2	204.4	1.0	208.8	0.6	230.9	1.3
<b>No. 2 Distillate</b> .....	188.8	18.4	204.9	18.1	233.7	18.9	181.3	147.3	190.2	143.4	229.0	135.7
No. 2 Fuel Oil .....	188.7	0.8	191.3	0.9	217.5	1.7	171.3	14.2	179.7	13.7	207.1	18.2
No. 2 Diesel Fuel .....	188.8	17.6	205.6	17.2	235.4	17.2	182.3	133.1	191.3	129.7	232.3	117.5
Low Sulfur .....	191.5	12.9	209.3	12.6	241.0	11.5	183.5	117.8	192.5	114.8	234.0	103.3
High Sulfur .....	181.2	4.7	195.3	4.6	223.8	5.6	173.3	15.4	182.0	14.9	220.1	14.2
<b>No. 4 Fuel<sup>a</sup></b> .....	W	W	W	W	181.7	0.2	141.3	0.1	143.3	0.1	W	W
<b>Residual Fuel Oil</b> .....	109.2	10.8	116.0	10.6	127.9	10.1	102.6	6.5	107.2	8.6	124.7	3.8
Sulfur Content not > 1 % .....	120.1	2.6	132.4	2.2	142.7	3.6	107.5	2.9	111.8	3.5	139.6	2.0
Sulfur Content > 1 % .....	105.7	8.2	111.8	8.4	119.8	6.5	98.8	3.6	104.1	5.1	108.8	1.8

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."

nounced by OPEC and the release of weekly inventory data showing an unexpected drop in crude oil and major products stock levels for the week ending October 20. While the decrease in refined products inventories was not surprising because of scheduled refinery maintenance and runs cuts, the drop in crude oil stocks was unexpected. At least part of the decrease can be attributed to the temporary closure of the Louisiana Off-shore Oil Port (LOOP) for a 3-day period due to bad weather in the week prior to the reported drop in inventories. The transition to ultra-low sulfur diesel (ULSD) fuel continued smoothly in October, with retail outlets choosing to sell the new product required to

have it available by October 15. Federal law requires 80 percent of fuel manufactured or imported into the United States for on-highway use must meet the new low sulfur standard. In California, all diesel fuel used on-highway must be ULSD fuel. Demand for distillate fuel continued to rise throughout October due to the start of the heating season and continued demand from the agricultural sector. A review of selected monthly average spot market prices illustrates October price trends. The October 2006 average spot price for WTI crude oil at Cushing, Oklahoma was \$58.89 per barrel, \$4.91 less than the September 2006 average of \$63.80 per barrel and \$3.37 lower than the October 2005 aver-

## Petroleum Products

age of \$62.26 per barrel. The spot market price for regular gasoline at New York Harbor averaged \$1.506 per gallon in October 2006, compared with \$1.583 per gallon last month and \$1.713 per gallon one year ago. The New York Harbor monthly average price for No. 2 fuel oil in October 2006 was \$1.648 per gallon, 5.2 cents below September 2006 average of \$1.700 per gallon and 24.5 cents lower than the October 2005 price of \$1.893 per gallon.

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

### Crude Oil

The October daily spot price for West Texas Intermediate (WTI) crude oil at Cushing, Oklahoma moved along a less volatile path than those seen during the past few months. Opening at \$62.90 per barrel, its highest point for the month, the price moved downward on news of recovering production operations in Alaska and rising crude inventories. While modestly unsettled during the coming weeks due to anticipation of OPEC production cuts and additional reports of rising stock levels, the price dropped the lowest level for the year thus far on October 23 when it reached \$56.74 per barrel. Rising again at the end of the month in reaction to an unexpected drop in inventories, the price closed the month at \$58.72 per barrel, but still \$4.18 below its opening level for October.

- Monthly average crude oil prices continued to fall in October. The average domestic crude oil first purchase price declined \$6.10 (10.3 percent) to \$53.26 per barrel.
- The average free-on-board (f.o.b.) cost of imported crude oil decreased \$4.63 (8.5 percent), to \$50.05 per barrel. The average landed cost of foreign crude oil fell \$5.20 (9.1 percent), to \$52.10 per barrel.
- The average refiner acquisition cost for domestic crude oil dropped \$5.76 (9.2 percent), to \$56.80 per barrel. The average cost of imported crude oil declined \$4.58 (8.0 percent) to \$52.71 per barrel, while the composite refiner acquisition cost for crude oil fell \$4.84 (8.2 percent), to \$54.09 per barrel.

### Motor Gasoline

Due to robust inventories and slower demand, the daily spot price for regular gasoline at New York Harbor followed a steady course during October. Opening at \$1.521 per gallon, the price moved gradually to the month's low of \$1.466 per gallon on October 11 on expectations that weekly inventory reports would show another rise in gasoline stocks. Showing only modest changes until the latter part of the month, the price jumped to its high of \$1.595 per gallon on October 25 following the release of data showing a larger than expected drop in stock levels. Dropping back during the last few days of the month, the price closed October at \$1.474 per gallon, and 4.8 cents lower than its opening level.

- Monthly average prices for finished gasoline declined firmly in all sales categories again in October. The average price for retail sales of motor gasoline by refiners fell 29.4 cents to \$1.784 per gallon, while the average wholesale price dropped 16.1 cents to \$1.640 per gallon. Including data reported by a sample of motor gasoline marketers, the national average price at company-operated retail outlets decreased 27.3 cents to \$1.779 per gallon. The average wholesale price for gasoline dropped 15.9 cents to \$1.645 per gallon. The average dealer tank wagon (DTW) price declined 20.9 cents to \$1.714 per gallon, while the average rack price fell 13.0 cents to \$1.630 per gallon. The average bulk sale price decreased 19.2 cents to \$1.556 per gallon. The difference between reformulated and conventional gasoline prices was 8.0 cents at retail and 7.5 cents at wholesale. Oxygenated gasoline prices were 6.8 cents higher than conventional gasoline prices at retail, and 8.0 cents more at wholesale.
- Refiner sales of motor gasoline declined in October. Total sales decreased 7.2 million gallons per day (1.9 percent) to an average of 368.5 million gallons per day. Retail sales increased slightly, rising 700,000 gallons per day (1.2 percent), while wholesales fell 7.9 million gallons per day (2.5 percent). Rack sales made up 73.2 percent of wholesales, while DTW and bulk sales accounted for 14.2 percent and 12.5 percent, respectively.

## *No. 2 Distillate*

While less volatile than in recent months, the daily spot price for No. 2 heating oil at New York Harbor showed more activity than the trends seen for other products' prices during October. Opening at \$1.690 per gallon, the price began to rise at mid-month in response to a forecast for colder weather in the Northeast region of the country, reaching its high of \$1.726 per gallon on October 16. It dropped back after that point, thanks to reports of ample inventories and more moderate weather trends. The price reached the low for the month, \$1.576 per gallon, on October 30. Closing October at \$1.639 per gallon, it was 5.2 cents below the month's opening level.

- October No. 2 distillate prices fell across the board. The national average residential sales price declined 8.0 cents to \$2.295 per gallon, while the average wholesale price dropped 9.1 cents to \$1.827 per gallon. The average price for No. 2 diesel fuel at company-operated retail outlets declined 20.2 cents, while the average wholesale price for No. 2 diesel fuel fell 9.3 cents. The difference between low- and high-sulfur diesel fuel prices was 6.7 cents at retail, and 8.9 cents at wholesale.
- Refiner sales of No. 2 distillates increased in October. Total sales rose 4.2 million gallons per day (2.6 percent), to 165.7 million gallons per day. Sales of No. 2 fuel oil increased 400,000 gallons per day (3.1 percent), while sales of No. 2 diesel fuel climbed 3.8 million gallons per day (2.6 percent). Low-sulfur diesel fuel made up 86.7 percent of all refiner diesel fuel sales, and 78.9 percent of all refiner No. 2 distillate sales.

## *Residual Fuel Oil*

- Residual fuel oil prices decreased again in October. Refiner prices for low-sulfur residual fuel oil de-

clined 12.3 cents to \$1.201 per gallon at retail, and 4.3 cents to \$1.075 per gallon at wholesale. The average refiner prices for high-sulfur residual fuel oil fell 6.1 cents to \$1.057 per gallon at retail, and 5.3 cents to 98.8 cents per gallon at wholesale. Including data reported by a sample of residual fuel oil marketers, average prices for low-sulfur residual fuel oil decreased 4.1 cents to \$1.227 per gallon at retail, and 3.8 cents to \$1.081 per gallon at wholesale. The retail price for high-sulfur residual fuel oil fell 6.6 cents to \$1.053 per gallon, while the wholesale price declined 4.7 cents to 97.2 cents per gallon.

- Refiner sales of residual fuel oil decreased in October. Total sales dropped 1.9 million gallons per day (9.9 percent), to 17.3 million gallons per day. Low-sulfur residual fuel oil sales fell 200,000 gallons per day (3.5 percent), while high-sulfur residual fuel oil sales declined 1.7 million gallons per day (12.6 percent).

## *Other Products*

- Overall, prices for the remaining surveyed products fell in October. The refiner retail price for propane rose 7.7 cents, while the wholesale price declined 2.8 cents per gallon. Including data from a sample of propane marketers, both the average residential and retail prices dropped 3.6 cents per gallon. The average wholesale propane price declined 2.5 cents per gallon. Prices for kerosene-type jet fuel, aviation gasoline, kerosene, and No. 1 distillate decreased at both levels. The price for No. 4 distillate also fell at wholesale.
- Refiner sales of the remaining surveyed products varied in October. Sales of kerosene-type jet fuel and aviation gasoline fell at both levels, while No. 1 distillate and kerosene sales rose at both retail and wholesale. Sales of propane declined at retail but rose at wholesale, while sales of No. 4 distillate dropped at wholesale.