Short-Term Energy and Summer Fuels Outlook

Guy Caruso
Administrator,
Energy Information Administration

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Several Key Factors Drive the Short-Term Fuels Forecast

1) Rising world oil consumption;

2) Low global surplus production capacity and tight crude oil supply relative to demand;

3) Supply concerns in international oil markets (such as in Nigeria, Iraq, and Iran);

4) The challenges of:
   - Stricter sulfur standards under the Tier 2 Gasoline program;
   - MTBE phase-out;
   - A shift to ultra low sulfur diesel.

All these factors contribute to higher prices for petroleum products, particularly in the coming months.
World Oil Consumption Growth Slowed in 2005; Projected to Increase in 2006-2007

Source: EIA, Short-Term Energy Outlook, April 2006
Non-OPEC Supply Growth Projected to Reach 0.8 million bbl/d in 2006 and 1.5 million bbl/d in 2007

Source: EIA, Short-Term Energy Outlook, April 2006
Large Demand Growth and Low Non-OPEC Supply Growth Create Tight Market Conditions

Demand growth exceeds non-OPEC supply growth

*Includes OPEC non-crude production

Source: EIA, Short-Term Energy Outlook, April 2006
2005 World Oil Spare Production Capacity Reached Lowest Level in 30 Years

Source: EIA, Short-Term Energy Outlook, April 2006
West Texas Intermediate Crude Oil Price Projected to Peak in mid-2006, then Gradually Decline.

Source: EIA, Short-Term Energy Outlook, April 2006
Several Factors Are Driving 2006 U.S. Summer (April - September) Outlook for Motor Fuels

1) High crude oil costs (up 13 percent from 2005 - summer to summer);

2) Increased gasoline demand growth (up 1.5 percent from 2005 – summer to summer);

3) Adequate stocks but refining capacity constraints;

4) Tighter constraints on sulfur content in gasoline and phase-out of MTBE;

Source: EIA, Short-Term Energy Outlook, April 2006
Projected Increases in Personal Income and Miles Traveled Drive Up U.S. Gasoline Demand

-10%
-5%
0%
5%
10%
15%
20%
25%
Real Personal Income
Real Fuel Cost per Mile
Vehicle Miles Traveled
Motor Gas Demand

Forecast

Source: EIA, Short-Term Energy Outlook, April 2006
Motor Gasoline and Distillate Stocks Projected to Remain Within 5-year Min/Max Range

**Total Motor Gasoline Inventory**

**Total Distillate Fuel Inventory**

**Forecast**

**NOTE:** Colored bands represent previous 5-year minimum/maximum ranges

Source: EIA, Short-Term Energy Outlook, April 2006
Days of Supply of OECD* Commercial Oil Stocks Decline Gradually Through 2007

* Organization for Economic Cooperation and Development

Source: EIA, Short-Term Energy Outlook, April 2006
U.S. Motor Gasoline Market Faces New Challenges This Year

1) Final stage of the phase-in of EPA’s Tier 2 gasoline program, which began in 2004:
   - Not expected to create significant problems for domestic refining and distribution;
   - May constrain foreign suppliers’ ability to respond to unexpected local supply disruptions or demand shocks.

2) Phase-out of methyl tertiary butyl ether (MTBE) as a motor gasoline blendstock:
   - Projected to slightly increase average price of all gasoline due to lost production capability, fewer import sources, and tight ethanol markets;
   - Raises potential for localized price spikes arising from a complex transition in a tight market over a fairly short time period.

Source: EIA, Short-Term Energy Outlook, April 2006
Current and Projected Ethanol Production Will Replace MTBE

Source: EIA, Short-Term Energy Outlook, April 2006
Gasoline and Blending Components Imports Projected to Average 9.9% of Summer Demand

Million barrels per day

Source: EIA, Short-Term Energy Outlook, April 2006
Refinery Utilization Rates Projected to Average About 94%, up from 92% Last Summer

Utilization Rate = Distillation inputs / atmospheric distillation operable capacity

Source: EIA, Short-Term Energy Outlook, April 2006
Summer Retail Gasoline Prices* Projected to Average $2.62 per Gallon, 25 cents More than Last Summer

* Regular gasoline, average all formulations.

** Retail price minus crude oil cost minus taxes, per gallon

Source: EIA, Short-Term Energy Outlook, April 2006
Regular Gasoline Summer Prices Vary by Region

U.S. Average = $2.37

2005: $2.38, $2.32, $2.28, $2.37, $2.56

2006 (Forecast): $2.61, $2.57, $2.52, $2.62, $2.84

Source: EIA, Short-Term Energy Outlook, April 2006
Summer Retail Diesel Prices Projected to Average $2.62 per gallon, up 21 cents from Last Summer

**Retail price minus crude oil cost minus taxes, per gallon**

Source: EIA, Short-Term Energy Outlook, April 2006
Summary

- High world oil demand, sparked by robust economic growth, is continuing to keep crude oil prices high and increase competition for gasoline imports.

- Crude prices (WTI) are expected to remain above $60 per-barrel for the rest of 2006 and 2007;

- In the United States, additional changes in gasoline specifications and tight refinery capacity can be expected to increase operating costs slightly and limit supply flexibility.

- Gasoline prices are expected to average $2.62 over this summer;

- Diesel prices also are expected to average $2.62 this summer.

Source: EIA, Short-Term Energy Outlook, April 2006
Extra Slides
Inflation-Adjusted Summer Gasoline Margins Continue to Rise

Source: EIA, Short-Term Energy Outlook, April 2006
Summer Motor Gasoline Supply/Consumption Growth Balance (Change from Year Ago)

Note: Net imports and stock draw include blending components

Source: EIA, Short-Term Energy Outlook, April 2006
Total Motor Gasoline Stocks by PADD (March 31)

Source: EIA, Short-Term Energy Outlook, April 2006
Natural Gas Spot Prices Projected to Dip During Spring and Summer ‘06, but Remain Relatively High

Source: EIA, Short-Term Energy Outlook, April 2006
Working Natural Gas in Storage: Currently about 60 percent above 5-year average; more than 30 percent above year ago.

Source: EIA, Short-Term Energy Outlook, April 2006