Environmental Services Division
Energy and Waste Management Bureau

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CRUDE OIL AND GASOLINE PRICES RESPOND TO LOWER INVENTORIES AND CONTINUED GEOPOLITICAL UNREST; NEW MONTHLY SALES RECORD FOR E85

DES MOINES — Record crude oil prices and higher gasoline prices have been the response this week to decreased oil and gas inventories and the ongoing battle with Iran over nuclear weapons development. However, analysts expect gasoline prices to begin to decline in the short-term as refineries return to normal operation over the next few weeks.

Crude oil prices leapt as high as $72.40 per barrel on Wednesday, before settling at $72.17 on the New York Mercantile Exchange, an increase of 82 cents from the previous day. The contract had risen as high as $71.60 on Tuesday.

The average price today for regular unleaded in Iowa is $2.78, up four cents from yesterday. The record high for regular unleaded in the state was $3.08 on Sept. 4, 2005.

“Everyone is asking if gasoline will exceed $3 per gallon this year,” said Tami Foster, energy data analyst for the DNR. “While analysts expect that prices may reach $3, they are not forecasting prices that high, on average, over an entire month.”

According to the Energy Information Administration, this forecast is based on no major problems in U.S. refineries, pipelines, or any part of the distribution chain. It also assumes that no additional oil production disruptions occur overseas.

The current jump in gasoline prices is attributed, in part, to lower inventories as a result of delayed fall maintenance and scheduled spring maintenance at U.S. refineries. However, as these refineries return to full operation, gasoline production should increase, thus adding much-needed supply into the system.

Other factors influencing prices include an increase in the demand for crude oil as refiners and others buy more oil now to put into inventories as a physical hedge against the possibility of supply disruptions later this year. Inventories may be built sufficiently to provide enough of a hedge for some refiners, which could help halt the rise in crude oil prices. At the same time, this may occur just as refiners need more crude oil to supply the refineries returning from maintenance, so it is difficult to determine which direction crude oil prices will head over the next several weeks, thus making it difficult to determine the impact crude oil prices might have on gasoline prices.

Another major factor influencing gasoline prices is the transition from MTBE reformulated gasoline (RFG) to ethanol RFG in some parts of the country, most notably much of the East Coast and major cities in Texas. How smoothly this transition occurs will have a significant impact on the near-term path of gasoline prices. However, unless problems related to this transition become more widespread, it may not have much impact on average monthly retail gasoline prices for the country as a whole.

According to EIA analysts, significant increases in gasoline production as refineries return to full operation sometime over the next several weeks should stem the rise in gasoline prices and may, actually, cause them to decline somewhat. While demand will generally increase as summer approaches, increased domestic production, in addition to the expected continuation of significant volumes of gasoline imports, should be enough to cause prices to begin to fall again, albeit not nearly as much as they have increased. Whether this occurs later this month or next, EIA analysts do expect prices to begin to come down.

The DNR's monthly fuel prices survey showed regular unleaded prices continued to climb across Iowa, averaging about 27 cents per gallon higher than last month and about 11 percent higher than a year ago.

Iowa retailers reported the highest monthly sales volume for E85 with 110,087 gallons sold in March 2006. The previous record was 85,532 gallons sold in February 2006. So far this year, 281,297 gallons have been sold as compared to 30,645 gallons sold for the same time period in 2005. E85 is a blend of 85 percent ethanol and 15 percent gasoline and can be used in flexible fuel vehicles. There are now 32 retail stations that offer E85 for sale in the state. For a complete list, visit www.iowadnr.com/energy/renewable/ethanol_sites.html

The latest data also shows that E10, a blend of 10 percent ethanol and 90 percent gasoline, represented 77 percent of all retail gasoline sold in Iowa in February 2006. All auto manufacturers warrant the E10 blend for use.

Motor Fuels Survey State Average Price Per Gallon

Self-Serve	3/15/06	4/17/06	Difference 3/15 to 4/17	3/15/05	% Difference 2005 to 2006
Regular Unleaded with 10% Ethanol	2.41	2.65	+0.24	2.13	9.9%
Regular Unleaded	2.44	2.71	+0.27	2.18	11%
Premium Unleaded	2.51	2.80	+0.29	2.23	13%
Diesel	2.56	2.72	+0.16	2.28	6%

Source: Oil Price Information Service, www.opisnet.com

10% Ethanol Average Retail Price Per Gallon
-- Major Iowa Cities

	3/15/06	4/17/06	Difference
Ames	2.40	2.66	+0.26
Cedar Rapids	2.38	2.65	+0.27
Council Bluffs	2.34	2.65	+0.31
Davenport	2.45	2.67	+0.21
Des Moines	2.40	2.67	+0.27
Dubuque	2.41	2.66	+0.25
Fort Dodge	2.45	2.63	+0.18
Iowa City	2.45	2.65	+0.20
Sioux City	2.41	2.67	+0.26
Waterloo	2.38	2.65	+0.27
Webster City	2.40	2.67	+0.27
Average Metro Price	2.41	2.65	+0.24

Source: Oil Price Information Service, www.opisnet.com

E85 Monthly Statewide Average Retail Price Per Gallon

February 2006	March 2006	Difference February 2006 to March 2006	March 2005	Difference March 2005 to March 2006	% Difference March 2005 to March 2006
1.95	2.11	+0.16	1.85	+0.26	13%

Source: Retail stations

Heating Fuels Survey

	3/13/06	4/17/06	Difference
Natural Gas	6.95 (3/22)	7.60 (4/18)	+0.65
Propane	1.45	1.46	+0.1
#2 Heating Oil	2.15	2.36	+.21

Sources: Wall Street Journal, Iowa Department of Natural Resources

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