

Analysts Predict Even Higher Gas Prices

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Two-dollar-a-gallon gas, commonplace in San Francisco, could appear around the country.

WASHINGTON (March 18) - As oil prices jump to a 14-year high, there is growing speculation that gasoline this summer could reach a national average of \$2 per gallon, and even higher in some regions.

Dwindling stockpiles and increasing demand have put new pressure on both crude oil prices and the tab at the gas pump, analysts said.

Separate surveys this week had the national average of gasoline at \$1.72 a gallon for regular grade and \$1.77 a gallon for all grades. That is a 26-cent increase since the first of the year, according to the Lundberg Survey, which tracks prices at 8,000 stations.

Crude oil closed Wednesday on the New York Mercantile Exchange at \$38.18 a barrel, the highest since October 1990. It had peaked during Wednesday trading at \$38.35, a level not reached since it briefly neared \$40 a barrel a few weeks before the start of the Iraq war a year ago.

The high cost of crude is causing refiners to shy away from buying oil, analysts say. It also is leaving inventories of crude as well as petroleum products, including gasoline, at levels well below normal. That, in turn, is putting pressure on prices.

"We have very low crude inventory stocks, low gasoline inventory right now. ... We're not seeing the buildup (of stocks) in the rate we normally see," said Ed Silliere, vice president of risk management at Energy Merchant Corp.

"It's a viewpoint that the market will have better supply down the road," he said, adding that refiners at today's crude prices do not want to take on more oil than they can use.

While crude inventories actually increased slightly last week, stocks of gasoline declined by 800,000 barrels to nearly 10 million barrels below the five-year average for this time of year, according to the Energy Information Administration.

The agency said refiners were producing gasoline at a rate of 8.6 million barrels a day, the most since the week just before Christmas. But demand also has risen.

Overall, motorists used an average of 8.9 million barrels of gasoline a day over the past month, 4.5 percent more than the same time a year ago, the agency said in its weekly report.

Gasoline stocks fell to 199.6 million barrels last week, declining for the first time since Nov. 28 to below 200 million barrels, the report said.

The agency, which uses a different survey method than Lundberg's, put the price of regular-grade gasoline at \$1.72 a gallon last week, a decline of 1.4 cents from the week before. Prices in some regions were much higher - an average of \$2.10 a gallon in California, for example.

Analysts expect gasoline prices to go still higher as the summer driving season approaches, probably eclipsing \$2 a gallon on a national average.

Silliere said that new environmental requirements involving toxicity and requirements in the Northeast for use of the ethanol additive will require changes in gasoline chemistry that will make it harder for European suppliers to ship gasoline into the United States to ease supply concerns.

He said he would not be surprised if prices went to \$2.50 a gallon in some Northeast states, the West Coast and parts of the Midwest where price spikes have been common in past summers.

Distillate inventories, which include heating oil and diesel fuel, fell 900,000 barrels to 111.8 million barrels last week, according to the EIA. Distillate stocks have fallen eight times in the last nine weeks.

Crude inventories rose for the third straight week to 281.1 million barrels, an increase of 1.6 million barrels, but still 23.4 million barrels below the five-year average for this time of year.

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