

Oil, Gasoline Decline on BP's Alaska Output, Lebanon Cease-Fire

It doesn't take much to make oil and gas either unavailable or too costly.

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Crude oil fell and gasoline tumbled to a three-month low after BP Plc dropped plans to shut the largest U.S. oil field and a cease-fire began in Lebanon.

BP will pump about 200,000 barrels a day from Prudhoe Bay in Alaska while it replaces corroded pipelines, rather than closing the field as initially planned. Supply concern also eased as Israel and Hezbollah stopped fighting. Oil rose to a record \$78.40 a barrel July 14 on concern the conflict would spread in the Middle East, which pumps almost a third of the world's oil.

"The bombs aren't crashing anymore but oil is," said Michael Lynch, president of Strategic Energy & Economic Research in Winchester, Massachusetts. "The oil market doesn't like good news. In fact it thrives on fear. It's looking like we'll be testing \$70 before long."

Crude oil for September delivery fell \$1.35, or 1.8 percent, to \$73 a barrel at 11:49 a.m. on the New York Mercantile Exchange. Futures touched \$72.60 during the session, the lowest since July 31. Prices are up 8.7 percent from a year ago.

Gasoline for September delivery declined 8.53 cents, or 4.1 percent, to \$1.979 a gallon in New York. Futures touched \$1.955 during the session, the lowest since May 18. Prices are little changed from a year ago.

Pump Prices

Regular gasoline, averaged nationwide, is down 0.3 percent from a year ago, according to AAA, the nation's largest motorist organization. Gasoline declined 1 cent yesterday to an average \$3.004 a gallon. Prices reached a record \$3.057 in early September, after Hurricane Katrina shut refineries and platforms along the Gulf of Mexico.

U.S. gasoline consumption peaks between the Memorial Day holiday in May and Labor Day in early September when vacationers take to the highways.

"It's getting real close to the end of the driving season and stocks are still comfortable," said Rick Mueller, an analyst with Energy Security Analysis Inc. in Wakefield, Massachusetts. "Attention is starting to shift away from gasoline to heating oil."

BP, the world's third-largest oil company, said last week it would shut the 400,000 barrel-a-day Prudhoe Bay field, which pumps 8 percent of U.S. oil, because of pipeline corrosion and a leak. U.S. regulators last week cleared BP to keep parts of the field open, subject to tight monitoring of the pipeline network.

Nigerian Pipeline

Royal Dutch Shell Plc's Nigeria venture opened eight of nine pumping stations in Nigeria, bringing 173,000 barrels a day back into production, a spokeswoman said Aug. 10. A leak was detected July 21.

Iran is under pressure from the United Nations Security Council to end its uranium enrichment program. The council has set an Aug. 31 deadline for Iran to accept an incentives package or face economic sanctions. The U.S. and U.K. say Iran is developing nuclear weapons. Iran says it needs enriched uranium to make fuel for nuclear power plants.

"The signs that we've seen out of Iran over the past 10 days or so have been extremely antagonistic, to say the least," said David Kirsch, an energy markets analyst at PFC Energy in Washington. "It doesn't look like there is going to be a resolution of the nuclear issue and in fact, there could be an escalation."

Israel said it was calling back some troops from southern Lebanon in compliance with a United Nations-brokered cease-fire that began at 8 a.m. local time.

No Disturbance

"The escalation of violence didn't bring about any disturbance on oil transit or oil production elsewhere," said Valerie Marcel, a Middle East oil specialist at London's Royal Institute of International Affairs. "There's no direct impact."

A United Nations Security Council resolution, approved unanimously Aug. 11, demands an end to the fighting and calls for the withdrawal of Israeli troops after UN and Lebanese forces are deployed in southern Lebanon. The measure is aimed at creating a buffer to protect Israel from Hezbollah rockets and to allow Lebanon to exert authority and begin rebuilding.

"The potential resolution of the situation in Lebanon, the containment of the conflict and a slowing economy are all providing downward pressure on energy markets," said Jason Schenker, an economist with Wachovia Corp. in Charlotte, North Carolina.

Brent crude oil for September settlement declined \$1.78, or 2.4 percent, to \$73.85 a barrel on the London-based ICE Futures exchange. Brent touched \$78.64 a barrel on Aug. 7, the highest intraday price since the contract started trading in 1988.