

## Solutions for a Sustainable Future

### Gas Prices?



In May 2008, average **gas prices** in the United States approached, and in some places passed, \$4.00 a gallon, shattering records. Gasoline is the bloodline that keeps America moving, and tracking gas prices can feel like a roller coaster ride. They're down a little one month, up the next, and then they shoot up more than 50 percent in a year. To the most of us, it seems as though there's little rhyme or reason to how gas prices are determined.

Americans have an insatiable thirst for gasoline. Just look at the amount of traffic on roads and highways, and you'll see that a severe gas shortage would practically cripple the United States. Americans drive nearly 3 trillion miles per year.

**Factoid: That's about 820 trips from the sun to Pluto and back.**

The United States consumes about 20 million barrels of oil products per day. Of that, almost half is used for motor gasoline. Each barrel of oil contains 42 gallons, which yields 19 to 20 gallons of gasoline. So, in the United States, 178 million gallons of gasoline is consumed every day.

Typically, the demand for gas spikes during the summer, when lots of people go on vacation. This high demand usually translates into higher gasoline prices. Cleaner-burning summer-grade fuels, which are more expensive to produce, can increase the price as well.

Price increases generally occur when the world crude-oil market tightens and lowers inventories (It is also tied to the value of our dollar. It is confusing, but just remember as our dollar weakens against other currencies the price of oil goes up). Also, growing demand can sometimes outpace refinery capacity. In the spring, refineries perform

maintenance, which can place a pinch on the gasoline market. By the end of May, refineries are usually at full capacity.

When you pump \$30 into your tank, that money is broken up into little pieces that get distributed among several entities. Gas is just like any other consumer product: There's a supply chain and several groups who are responsible for setting the price of the product. No matter how expensive gas becomes, all of these entities have to get their slice of the pie. According to the U.S. Department of Energy, here's an approximation of where each dollar you spend on gas goes:

- **Taxes:** 15 cents
- **Distribution and Marketing:** 11 cents
- **Refining:** 7 cents
- **Crude oil:** 67 cents

This is what the average breakdown looked like in January 2010. Let's look at those components in more detail.

- **Crude oil** - The biggest portion of the cost of gas goes to the crude-oil suppliers. This is determined by the world's oil-exporting nations, particularly the Organization of the Petroleum Exporting Countries (OPEC). The amount of crude oil these countries produce determines the price of a barrel of oil. Sometimes, gas prices go up even though there is plenty of crude oil on the market. It depends on what kind of oil it is. Oil can be classified as heavy or light, and as sweet or sour. Light, sweet crude is easier and cheaper to refine, but supplies have been running low. There's plenty of heavy, sour crude available in the world, but refineries, particularly those in the U.S., have to undergo costly retooling to handle it.

**Factoid: On July 11, 2008 oil hit an all-time high of \$147 per barrel.**

- **Refining costs** - The cost of refining diesel fuel can be considerably higher than the price of refining regular gasoline.
- **Distribution and marketing** - Crude oil is transported to refineries, and gasoline is shipped from the refineries to distribution points and then to gas stations. The price of transportation is passed along to the consumer. Marketing the brand of the oil company is also added into the cost of the gasoline you buy.
- **Taxes** - Federal and state governments each place excise taxes on gasoline. There may also be some additional taxes, such as applicable state sales taxes, gross receipts taxes, oil inspection fees, underground storage tank fees and other miscellaneous environmental fees. Add that to the state excise taxes, and it can average 27.4 cents. **(Ohio is 28 cents with an additional 5 cents sales tax)**
- **Station markup** - Of course some of the money you spend at the pump does go to the service station. While some consumers blame high prices on station markup, service stations typically add on a few cents per gallon.

### Average U.S. Gasoline Prices

<b>Year</b>	<b>Price Per Gallon</b>
1980	\$1.22
1985	\$1.96
1990	\$1.22
1995	\$1.21
2000	\$1.56
2001	\$1.53
2002	\$1.44
2003	\$1.64
2004	\$1.92
2005	\$2.34
2006	\$2.63
2007	\$2.85
2008	\$3.32
2009	\$2.40
Today	\$3.15

Source: U.S. Bureau of Labor Statistics Consumer Price Index (CPI). [Average Price Data, Gasoline All Types.](#)

Gas prices also vary from state to state for several reasons. Taxes are probably the biggest factor in the different prices around the country. Additionally, competition among local gas stations can drive prices down. Distance from the oil refineries can also affect prices - - stations closer to the Gulf of Mexico, where many oil refineries are located, have lower gas prices due to lower transportation costs.

World events, wars and weather can also raise prices. Anything that affects any part of the process, from the moment the oil is drilled, through refining and distribution to your car will result in a change in price. The most recent surge in gas prices is due to several factors, including all of those listed above.

**Factoid: The deepwater Gulf provided 20% of US oil production.**

I am Jim Steigner (Mr. Comfort), and I just wanted you to know. As always please feel free to contact me at [www.mrcomforthvac.com](http://www.mrcomforthvac.com) under the “Ask Mr. Comfort Section”, with any questions, thoughts, or ideas.