

# Roth: How are gas prices determined?

According to AAA, since January, retail gas prices have dropped at the fastest rate in nearly a year.

Currently, the national average price for a gallon of regular gas is \$3.35. In parts of Oklahoma City, it is \$2.87. AAA said the national average could drop another 25 to 30 cents per gallon by year's end.

What really drives gas prices? The general rule, according to the Energy Information Administration, is that about two-thirds of the cost of gas at the pump is determined by crude oil cost. The remainder includes retail costs, federal and state taxes, refining costs, profits, distribution and marketing.

To turn crude into gasoline and sell it at the pump, oil must be refined, shipped and loaded into trucks for delivery to stations, where it is purchased for public resale. Long shipping routes, more refining, and remote station locations contribute to higher prices.

In 2004 the average price for crude oil was \$37 per barrel. Crude was 47 percent of the price of regular gasoline. Today, crude is \$111 per barrel and is two-thirds of the price we pay.

Worldwide demand has increased dramatically, particularly in China, India and Brazil – three countries with a combined population of 2.7 billion.

In summer 2010, gas prices were about \$2.80. An unstable supply caused prices to rise when revolutions swept the Middle East. During Libya's civil war its oil production fell more than 50 percent.

U.S. crude for December delivery fell 94 cents per barrel to \$96.86, its lowest settlement since July 1. Brent crude, often considered a broader indicator of global oil prices, lost \$2.17, ending the day at \$107.80 per barrel, its lowest settlement price since Aug. 8.

The result is a buildup in oil supply in the U.S. Meanwhile, demand for gasoline remains flat, partially a reflection of the stagnant economy.

Analysts said the downtrend in retail gasoline prices will continue with reduced demand, increased U.S. production of oil and increased refining capacity.

U.S. refiners have an ample supply of domestic and Canadian crude, allowing them to make more gasoline. The U.S. met 87 percent of its own energy needs in the first six months of 2013, the highest rate since 1986.

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New technology makes a difference. Some suggest that fracking can do for oil and gasoline prices what it has been doing for natural gas prices. Vehicles now get considerably better gas mileage.

Inflation and taxes account for the biggest relative increases in the price of gasoline. The nationwide average tax on gasoline is 49.5 cents per gallon, up 0.1 cpg since July 2013. The federal tax on gasoline is 18.4 cpg. The average state gasoline excise tax is 21.4, up 0.5 cpg from July 2013.

It is expected that per individual there will be less fuel consumption, but more people will be consuming worldwide. These changes will affect pump prices.

Nationally, retail prices have fallen 25 cents since the end

of August, as the 2013 Atlantic hurricane season was looking like the first in almost two decades without a major storm disrupting Gulf Coast production.

The common belief is that the price of gasoline is solely determined by the supply and demand of crude. Those are the major factors, but other components will continue to influence pricing.