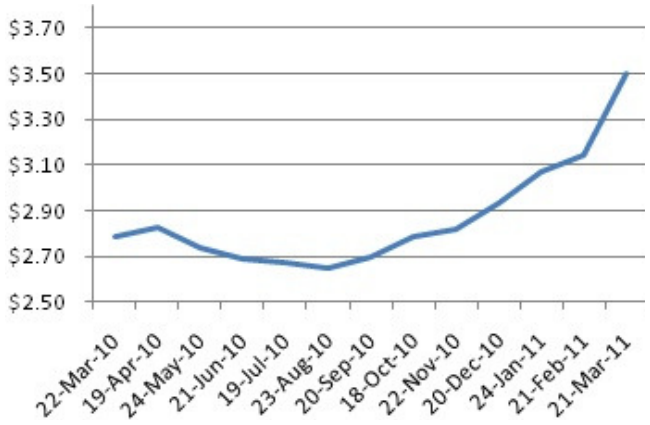
MoreEnergyNow

A Project By: CEA CONSUMERENERGYALLIANCE

Why are Gasoline & Diesel Prices so High? What can be Done?

Oil and gas prices have risen to their highest level in two years, and relief is likely not in sight. As of March 16, 2011, regular gasoline averaged $3.56 a gallon – up $0.85 from September 2010. Similarly, diesel prices are up to $3.90 a gallon from $2.95 just six months prior.[1] Analysts estimate that gasoline will average $3.56 a gallon in 2011 and $3.57 per gallon in 2012 – with a 25 percent probability that motorists will see $4.00 a gallon this coming summer.[2]

Figure 1: U.S. Average Retail Prices per Gallon (Regular)*



As global demand increases and oil markets become tighter, any disturbance to supply can cause oil prices to jump markedly. Since February 2011, instability in the Middle East and North Africa has forced oil prices to increase about $15 to over $100 a barrel.[3] Back in March 2010, oil traded on the New York Mercantile Exchange averaged around $84 a barrel, but just one year later it is over $100 – reaching $104 in mid-March.[4]

Moreover, the U.S. Energy Information Administration (EIA) anticipates that global consumption will grow an annual average of 1.6 million barrels per day through 2012, yet non-OPEC (Organization of the Petroleum Exporting Countries) supply will only increase 170,000 barrels a day in 2011 – before declining again in 2012.[5] In response, OPEC production will likely increase by 1.9 million barrels per day, a substantial figure relative to non-OPEC production.[6]

Continued unrest in producing countries – including Libya – and instability throughout the region as well as uncertainty about future economic growth and energy demand are all factors that can raise oil prices in the coming years.[7] However, the International Energy Agency (IEA) recently cautioned that sustained high oil prices will damage world economic recovery.[8] Concern remains that if oil prices soar as high as $150 a barrel, the economy could get thrown back into recession.[9]

High Gas Prices Hurt American Consumers, Industry and Small Businesses

According to the EIA, higher oil prices translate into the average U.S. household spending about $700 more in gasoline than it spent in 2010.[10] In fact, according to Cameron Hanover for every penny the price of gasoline increases, it costs consumers an additional $4 million per day – which equals $1.4 billion over an entire year.[11]

As high gas price spikes continue to guzzle up more of American families' monthly budgets and increase the costs of other consumer goods, it should come as no surprise that nine out of ten Americans are concerned about rising gas prices.[12] In fact, a recent CNN poll showed that two-thirds of those surveyed say their families are having a hard time getting by with rising gas prices, and nearly 80 percent of respondents think gas could hit $5 a gallon by the end of the year.[13]

Higher oil prices also raise expenses for small businesses and manufacturers – from increasing raw material costs for factories to raising transportation costs for the U.S. service sector.[14] At the same

"February Producer Price Index (PPI) doubled from January …the numbers, though, reveal that food and energy, as expected, have been going haywire, with finished foods showing their **greatest monthly increase since November 1974, gaining 3.9%."**

Source: Forbes.com, March 16, 2011

Take Action: Visit MoreEnergyNow.org

time, fuel-intensive industries, such as farming, trucking, manufacturing and the airline industry, have all seen their operating expenses rise – which oftentimes can be passed to consumers in the form of higher costs for goods and services. For example, United Continental Holdings has already imposed a $20 fuel surcharge on the price of a round-trip, domestic airline ticket – which only partially covers the burden from increased fuel costs.[15] This is just one example of how consumers are already being affected – let's take a look at what occurred just a few years ago when oil prices $147 a barrel.

In 2008, 10 U.S. airlines were forced to close and more than 36,000 jobs were cut all due to high jet fuel prices.[16] Similarly, high diesel prices in the first half of 2008 led to the failure of more than 1,900 trucking companies that operated at least five trucks.[17] Since the trucking industry could not absorb all the costs of high diesel prices, part of the expense was passed onto consumers. Yet, with consumers buying less due to increased costs for all goods, the trucking industry – as well as several other service industries and manufacturers – saw a decreased demand for their goods and services, multiplying the impact on the overall economy.

Increased Access to Domestic Energy Supplies Needed Now to Relieve Pain at the Pump and to Ensure a Healthy Economy

The United States has recently limited its ability to thoughtfully respond to high oil prices and tight oil markets due to the following domestic policies:

- moratoria, drilling bans, slowed permitting and an uncertain regulatory environment for onshore and offshore oil and natural gas exploration and production;
- policies and programs that restrict access to affordable domestic energy, such as establishing Low-Carbon Fuel Standards (LCFS) and the designation of wilderness areas and national monuments without appropriate public input; and
- unnecessary and duplicative federal and state regulations.

Fortunately for the United States, by simply leveraging our nation's abundant resources and promoting a reasonable approach to support the use of all sources of domestic energy, we can abate high oil prices – while creating jobs, strengthening our energy security and paying down our deficits with increased government revenues.

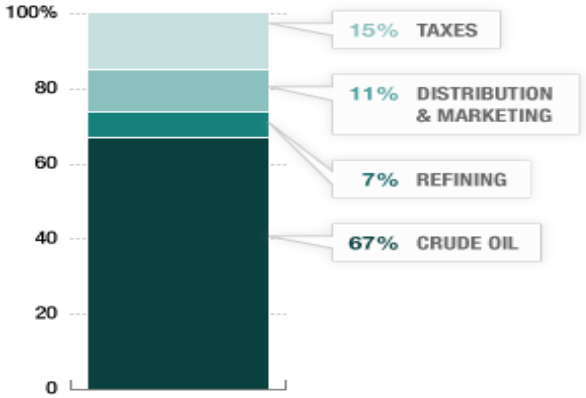
**Photo taken at a San Francisco gas station on March 4, 2011.*

Looking Inside a Gallon of Gas

The cost to produce and deliver gasoline to consumers includes the following expenses: crude oil to refiners; refining and processing; distribution and marketing; retail station expenditures; taxes and other fees.

Crude oil represents the biggest cost component and typically makes up between 65% and 70% of the total cost of one gallon of regular gasoline.[18] ***As such, there is a direct correlation between the volatility in oil prices and the volatility in gasoline prices – meaning if we want to lower gasoline prices, we need access to reliable sources of oil.***

What We Pay for in a Gallon of Regular Gasoline*



*U.S. Energy Information Administration

Take Action: Visit MoreEnergyNow.org

Abundant Resources

- A recent report from the Congressional Research Service detailed just how large our energy reserves are in the United States. Our combined recoverable oil, natural gas and coal resources total 1.3 trillion barrels of oil equivalent – the largest in the world. More than Saudi Arabia, China and Iran.[19]

- The U.S. Department of the Interior estimates that there are currently 85.9 billion barrels of oil and 420 trillion cubic feet of natural gas available in federal offshore areas – enough oil to produce gasoline to run 192 million cars and heat 78 million homes for 15 years.[20]

- According the Bureau of Land Management, federal lands contain an estimated 31 billion barrels of oil and 231 trillion cubic feet (Tcf) of natural gas. Of this, 19 billion barrels of oil and 95 Tcf of natural gas are closed to production.[21]

world's oil shale resources, which can be converted to crude oil using new technology. The U.S. Geological Survey estimates that the region may hold more than 1.5 trillion barrels of oil (six times Saudi Arabia's proven resources) and enough to provide the U.S. with energy for the next 200 years.[22]

- The Potential Gas Committee's biennial assessment of the nation's gas resources in June 2009 indicated that the United States possesses a resource base of 1,836 Tcf of natural gas. When combining these results with the Department of Energy's latest determination of proven gas reserves, 238 Tcf as of year-end 2007, the United States has a future supply of natural gas of over 2,000 Tcf. At current consumption rates, this is enough natural gas to supply the nation for the next hundred years – which is largely attributable to increased supplies from unconventional gas resources, specifically from shale gas development.[23]

Sources

[1] U.S. Energy Information Administration, "Weekly Retail Gasoline and Diesel Prices," http://www.eia.doe.gov/dnav/pet/pet_pri_gnd_dcus_nus_m.htm.
[2] U.S. Energy Information Administration, "Short-Term Energy Outlook," March 2011.
[3] Ibid.
[4] *Wall Street Journal,* http://online.wsj.com/mdc/public/page/mdc_commodities.html?mod=mdc_topnav_2_3028#.
[5] U.S. Energy Information Administration, "Short-Term Energy Outlook," March 2011.
[6] Ibid.
[7] Ibid.
[8] *Reuters,* http://af.reuters.com/article/commoditiesNews/idAFLDE72E0Q320110315 .
[9] *Financial Times,* http://www.ftadviser.com/InvestmentAdviser/Investments/News/article/20110328/619212ac-561f-11e0-ae7f-00144f2af8e8/Oil-price-rises-could-trigger-recession-warn-economists.jsp.
[10] U.S. Energy Information Administration, http://www.eia.doe.gov/oog/info/twip/twip.asp .
[11] *MSNBC,* http://today.msnbc.msn.com/id/41137540/ns/today-today_news/ .
[12] *USA Today*, http://content.usatoday.com/communities/greenhouse/post/2011/03/poll-gas-prices-oil-dependence/1 .
[13] *CNN,* http://www.wect.com/Global/story.asp?S=14279170.
[14] *Daily Finance,* http://www.dailyfinance.com/story/can-u-s-services-growth-outweigh-high-oil-prices/19874107/ .
[15] *Wall Street Journal,* http://online.wsj.com/article/SB10001424052748703327404576194843820101596.html?KEYWORDS=libya+oil+price.
[16] Consumer Energy Alliance, "The Impact of High Energy Prices on Key Consumer Sectors of the U.S. Economy," September 2008.
[17] Ibid.
[18] *Oil Price,* http://oilprice.com/Energy/Oil-Prices/Is-Crude-Oil-Set-for-a-Price-Spike.html.
[19] Congressional Research Service, "U.S. Fossil Fuel Resources: Terminology, Reporting ,and Summary," November 30, 2010.
[20] American Association of Petroleum Geologists, http://www.aapg.org/geoDC/ActionAlert/06-08-28mmsprimer.pdf.
[21] U.S. Department of the Interior, Agriculture and Energy, "Inventory of Onshore Federal Oil and Natural Gas Resources and Restrictions to Their Development," Energy Policy and Conservation Act, Phase III Inventory, 2008.
[22] U.S. Geological Survey, "In-Place Oil Shale Resources Underlying Federal Lands in the Piceance Basin, Western Colorado," June 2010.
[23] American Petroleum Institute, http://www.api.org/policy/exploration/hydraulicfracturing/shale_gas.cfm .

Take Action: Visit MoreEnergyNow.org