



# OLR RESEARCH REPORT

June 30, 2011

2011-R-0251

## **GASOLINE PRICES**

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You asked (1) what accounts for the recent run-up in gasoline prices and (2) how gasoline prices in Connecticut compare to those in other states. Much of the information in this report is taken from the federal Department of Energy's Energy Information Administration (EIA), whose website is [www.eia.gov](http://www.eia.gov).

### **RECENT INCREASES IN GASOLINE PRICES**

According to EIA, gasoline prices were relatively stable from June of 2009 until October 2010, with the average national retail price of regular gasoline ranging from approximately \$2.50 to \$2.90 per gallon. Beginning in October 2010, the price increased steadily, although it has decreased in recent weeks. Nationally, the price peaked at approximately \$4 per gallon in late spring 2011.

The bulk of the cost of gasoline is the cost of crude oil. According to EIA, the price of crude oil currently accounts for 68% of the cost of gasoline at the national level, up from an average of 53% for the period 2000-2010. The other major components of the current price of gasoline are federal and state taxes (14%), distribution (10%), and refining costs and profit (7%). Similarly, the rising cost of crude oil accounts for most of the increase in gasoline prices from the fall of 2010 to late spring 2011. The U.S. benchmark price of crude (West Texas Intermediate) rose from \$81.89 to \$109.53 per barrel from October 2010 to May 2011 (an increase of \$0.71 per gallon). The most widely used international benchmark price (Brent), which affects the price of gasoline imported to the U.S., increased even more in this period. The average U.S. retail price of regular gasoline increased by \$1 per gallon during the same period.

A June 11, 2011 analysis by EIA looks at seven factors that have affected oil prices –production by OPEC and non-OPEC nations, consumption in the U.S. and other wealthy nations and in less wealthy nations, fuel inventories, and the spot and financial markets. The analysis notes that much of the world's oil is located in regions that have been prone to political upheaval or that have had their oil production disrupted due to political events. Recently, disruptions to supply or curbs on potential development of resources from political events have occurred in Iran, Iraq, Libya, Nigeria, and Venezuela. Other factors affecting the price of oil include strong demand growth in non-wealthy countries (notably China) and declining inventories. The analysis is available at <http://www.eia.gov/finance/markets/>.

The retail price of gasoline has not fallen as quickly as the price of crude in recent months. EIA attributes the lag in part to unexpected refinery outages and disruptions in distribution caused by the flooding of the Mississippi River and its tributaries.

### **GASOLINE PRICES IN CONNECTICUT AND OTHER STATES**

EIA does not publish comprehensive state level gasoline price, although it does publish data for the largest states and metropolitan areas. The American Automobile Association produces data based on surveys for metropolitan areas in each state, which is available at <http://fuelgaugereport.aaa.com/>. According to the June 27, 2011 survey, the national average price for unleaded regular gasoline was \$3.57. Connecticut had the highest price (\$3.95 per gallon) among the continental states, behind Alaska (\$4.13) and Hawaii (\$4.05). Much of the difference in state-level prices can be attributed to taxes. Connecticut's taxes are the highest in the country, approximately \$0.20 above the national average, according to the American Petroleum Institute. Federal environmental law also requires the use of reformulated gasoline in the state, which costs somewhat more than conventional gasoline. The federal mandate applies to urban areas throughout the Northeast, as well as all of California and several other metropolitan areas.

Prices in Connecticut vary geographically. The average price in your area (New Haven-Meriden) was \$3.93 per gallon. Prices were higher in the Bridgeport area (\$4.07) and lower in the Hartford and Norwich-New London areas (\$3.91 and \$3.84, respectively).

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