



Highlights of [GAO-05-675T](#), a report to House Committee on Government Reform, Subcommittee on Energy and Resources

## Why GAO Did This Study

Gasoline prices have increased dramatically in recent weeks and currently, California has the highest gasoline prices in the nation. Consequently, consumers are expected to spend significantly more on gasoline this year than last. Specifically, EIA recently projected that, because of higher expected gasoline prices, the average American household will spend about \$350 more on gasoline in 2005 than they did in 2004. Understandably, the public and the press have focused on these higher gasoline prices and some have questioned why this is happening. Moreover, people are concerned about the future, with some analysts projecting prices of crude oil—the primary raw material from which gasoline is produced—to remain at current high levels or even increase. Other analysts expect prices to fall as new oil supplies are developed and as consumers adjust to the current high prices and adopt more energy-efficient practices.

This testimony, as requested, address factors that help explain today's high gasoline prices in the nation as a whole and specifically in California. In addition, potential trends that may impact future prices of crude oil and gasoline are addressed.

[www.gao.gov/cgi-bin/getrpt?GAO-05-675T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-675T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jim Wells at (202) 512-3841 or [wellsj@gao.gov](mailto:wellsj@gao.gov).

## ENERGY MARKETS

### Understanding Current Gasoline Prices and Potential Future Trends

#### What GAO Found

Crude oil prices and gasoline prices are linked, because gasoline is derived from the refining of crude oil. As a result, crude oil prices and gasoline prices generally follow a similar, albeit not identical, pattern over time. For example, from January 2004 to the present, the price of West Texas Intermediate crude oil rose by almost \$20 per barrel, an increase of almost 60 percent, while over the same period, average gasoline prices rose nationally from \$1.49 to \$2.20 per gallon, an increase of 48 percent. Explanations for this large increase in crude oil and gasoline prices include rapid growth of world demand for crude oil and petroleum products, instability in the Persian Gulf region, and actions by the Organization of Petroleum Exporting Countries (OPEC) to restrict the production of crude oil and thereby increase its price on the world market. In addition to the cost of crude oil, gasoline prices are influenced by a variety of other factors, including refining capacity constraints, low inventories, unexpected refinery or pipeline outages, environmental and other regulations, and mergers and market power in the oil industry.

Gasoline prices in California, and in other West Coast states, have consistently been among the highest in the nation and recent experience is no different. For the last week in April, the price of regular grade gasoline in California was \$2.57 per gallon, about 37 cents above the national average. Explanations for California's higher than average gasoline prices include (1) California's unique gasoline blend, which is cleaner burning and more expensive to produce than any of the other commonly used gasoline blends; (2) a tight balance between supply and demand in the West Coast, and the long distance to any viable sources of replacement gasoline in the event of local supply disruptions; and (3) California's higher level of gasoline taxes—California currently taxes a gallon of gasoline at 30 cents per gallon more than the state with the lowest taxes, Alaska. Some sources have also attributed high gasoline prices, in part, to the fact that California's refining sector is more concentrated in the hands of fewer companies than in other refining areas, such as the Gulf Coast.

Future gasoline prices will, in large part, be determined by the supply and demand for crude oil and its price on the world market. World crude oil demand is projected to rise, so new sources will have to be developed or prices will rise. Technological innovations that reduce the cost of finding or extracting crude oil could reduce prices, other things remaining constant. Greater conservation, or improvements in energy efficient technologies could also mitigate rising demand and reduce upward pressure on prices. In addition, alternative fuel sources may become more economical, thereby supplanting some of the demand for crude oil and gasoline in the future.

America faces daunting challenges in meeting future energy demands, and policy makers must choose wisely to ensure that the country can meet these demands, while balancing environmental and quality of life concerns.