



Highlights of [GAO-05-1047T](#), a testimony to the Senate Committee on Commerce, Science, and Transportation

## Why GAO Did This Study

Soaring retail gasoline prices have garnered extensive media attention and generated considerable public anxiety in recent months, particularly in the aftermath of Hurricane Katrina. Prices in many areas hit by the hurricane saw retail gasoline prices increase to over \$3.00 per gallon, and in one reported case to almost \$6.00 per gallon, with some gasoline stations running out of gasoline entirely.

The availability of relatively inexpensive gasoline over past decades has helped foster economic growth and prosperity in the United States, so large price increases, especially if sustained over a long period, pose long-term challenges to the economy and consumers.

This testimony, as requested, addresses factors that help explain how gasoline prices are determined and what key factors will likely influence trends in future gasoline prices.

[www.gao.gov/cgi-bin/getrpt?GAO-05-1047T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-1047T).

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

# ENERGY MARKETS

## Gasoline Price Trends

### What GAO Found

Crude oil prices and gasoline prices are inherently linked, because crude oil is the primary raw material from which gasoline and other petroleum products are produced. In the past year, crude oil prices have risen significantly—from August 31, 2004 to August 31, 2005, the price of West Texas Intermediate crude oil, a benchmark for international oil prices, rose by almost \$27 per barrel, an increase of almost 64 percent. Over about the same period, average retail prices for regular gasoline rose nationally from \$1.87 to \$2.61 per gallon, an increase of about 40 percent. Major upward and downward movements of crude oil prices are generally mirrored by movements in the same direction by gasoline prices. However, based on recent events, at least in the short term, this historical trend has not held, and retail prices have risen faster than crude oil prices.

While crude oil is a fundamental determinant of gasoline prices, a number of other factors also play a role in determining how gasoline prices vary across different locations and over time. For example, refinery capacity in the United States has, in recent years, not expanded at the same pace as demand for gasoline and other petroleum products. During the same period we have imported larger and larger volumes of gasoline from Europe, Canada, and other countries. Further, the American Petroleum Institute has recently reported that U.S. average refinery capacity utilization has increased to 92 percent. As a result, domestic refineries have little room to expand production in the event of a temporary supply shortfall.

Gasoline prices may also be affected by unexpected refinery outages or accidents that significantly disrupt the delivery of gasoline supply. Most recently, Hurricane Katrina hit the Gulf Coast, doing tremendous damage to homes, businesses, and physical infrastructure, including roads; electricity transmission lines; and oil producing, refining, and pipeline facilities. Because the Gulf Coast refining region is a net exporter of petroleum products to all other regions of the country, retail gasoline prices in many parts of the nation rose dramatically. Average retail gasoline prices increased 45 cents per gallon between August 29 and September 5. The average price for a gallon of regular gasoline on September 5 was \$3.07, the highest nominal price ever.

Future gasoline prices will reflect the world supply and demand balance. Globally, if demand for oil and petroleum products continues to rise, supply will need to keep pace. The challenge is to boost supply and reduce demand. We need to choose wisely and we need to act soon.