

The mystery of why gasoline prices fluctuate

Dateline: Terry, Montana

By: Bob van der Valk

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According to AAA Fuel Gauge Report the national average for retail gasoline on April 4, 2012 was \$3.9280 per gallon, which is up a half-penny from the previous day.

Unleaded Gasoline Average Price

Current \$3.928

Yesterday \$3.923

Week Ago \$3.911

Month Ago \$3.767

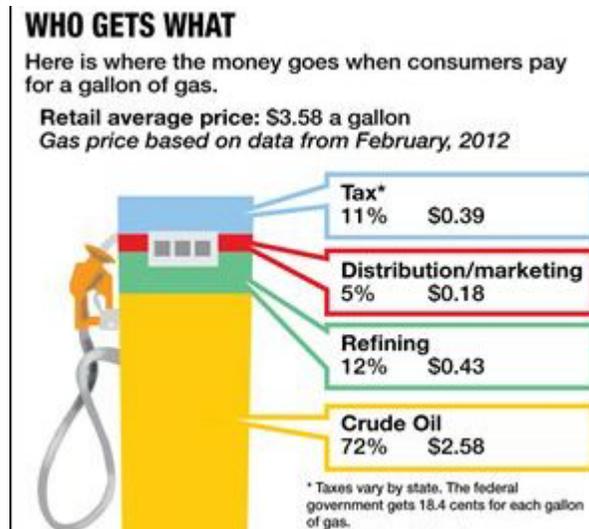
Year Ago \$3.685

Highest Recorded Average Price:

7/17/2008 \$4.114

The increases in gasoline prices have slowed down for the moment there's a big potential for prices to continue to trek to new highs by the Memorial Day weekend. The national average for Unleaded regular gasoline will hit the \$4 per gallon and 10 states and the District of Columbia are already averaging \$4 per gallon or above that mark.

As I look back on the first quarter of 2012, one of the most glaring events was the rise in gasoline prices here in the U.S. Wholesale gasoline began the year at \$2.66 per gallon on the NYMEX, and closed last Friday at \$3.33, a gain of 67 cents ... a jaw-dropping 25 percent. The retail price breakdown per the DOE Energy Information Agency:



The reasons for the increased gas prices are varied. Generally speaking, though, they've risen because crude oil prices have risen. I know that might sound obvious. But I'm not talking about the oil prices we follow in the U.S., which is known as West Texas Intermediate (WTI) crude oil at the hub terminal of Cushing, Oklahoma. You may hear the name of that town more in the next few months leading up to Presidential election since it is the center of attention while discussions are ongoing on how to stop the ever increase in gasoline prices by having the Keystone XL pipeline approved for its full 1,700 mile length from Hardisty, Canada to the Gulf Coast.

Instead, I'm talking about what replaced WTI in November 2010 as the global benchmark of oil: Brent crude oil. My article, written on explaining the difference between the two posted prices and its implications on the price we pay for gasoline in the US, can be found at:
<http://advisoranalyst.com/glablog/tag/brent-crude-oil-price/>

Brent crude rose from \$10 per barrel (bbl) to over \$125/bbl in the first quarter on reduced supply coming out of the Middle East and on concern regarding potential military conflict between Israel and Iran.

In addition to the general rise in oil prices, we have seen a widening of the difference, or spread, between WTI and Brent crude prices. That spread has increased from about \$9 at the beginning of the year to \$20. And this has created a very unique opportunity for refining companies in the central U.S.

US oil company refiners have the ability to buy crude oil at the WTI price, then refine it and sell gasoline based on the Brent crude price, which is over \$125 a barrel. My favorite question to ask a neophyte to the petroleum industry is: "How many gallons are there in a barrel of crude oil?" The answer is: "42 gallons". The difference between being \$20 a barrel translates to an about 50 cents per gallon additional cost passed on to US gasoline consumers by US refiners using the overseas benchmark instead of the landlocked Cushing WTI price.

The reason there is such a large spread between WTI crude and Brent crude is mainly because the WTI crude oil is produced in the Bakken shale oil formation in Eastern Montana and Western North Dakota. It is "trapped" since there are very few pipelines that can transport the distance of 1300 miles to the Gulf of Mexico for export other than by tanker railcars.

The integral Seaway Pipeline, which carries crude oil from the Gulf of Mexico to Cushing, Oklahoma, is going to be reversed. It will then carry oil from Cushing, Oklahoma to the Gulf of Mexico to be exported. In addition, other pipeline companies have discussed switching the direction of their pipelines to help relieve the glut of WTI crude oil sitting in the U.S. and transport it to the refineries located on the coast of the Gulf of Mexico. Over 50% of US refinery capacity to produce fuel is located on the Gulf of Mexico.

Until the Keystone XL pipeline is completed, which will take about two years after the date it receives final approval from the President on its application being studied by the US State Department, the price of gasoline will have this additional cost built into the pump price. Meanwhile Montana and Wyoming drivers are enjoying the benefits of being located close the source of crude oil and are only paying about 25 cents per gallon less than the US average of \$3.928. The highest price today in the continental US is in the Chicago Metro area at \$4.644 per gallon.

About the author: Bob van der Valk lives in Terry, Montana and is a Petroleum Industry consultant. He reports on fuel-related trends and events. You can reach him by e-mail: tridemoil@aol.com or on the Internet at: www.4vqp.com