Gasoline is a vital economic component of a modern economy and plays an integral role in the transportation needs of the United States. On November 24, 2015, the American Automobile Association reported that nationwide the average price of regular gasoline was $2.06 per gallon. On that date in 2014, the average price of regular gasoline was $2.81 per gallon. The following is a review of the issues surrounding current price levels.

**COMPONENTS OF THE RETAIL PRICE OF GASOLINE**

The U.S. Energy Information Administration (EIA) reports that the cost to produce and deliver gasoline to consumers includes the cost of crude oil to refiners, refinery processing costs, marketing and distribution costs, and the retail station costs and taxes. The prices paid by consumers at the pump reflect these costs, as well as the profits (and sometimes losses) of refiners, marketers, distributors, and retail station owners.
According to the EIA, crude oil is the biggest portion of the cost of gasoline. In 2014, the price of crude oil averaged $98.89 per barrel, and crude oil accounted for about 65 percent of the cost of a gallon of regular grade gasoline. In comparison, the average price for crude oil for the years 2000 through 2014 was $66.77 per barrel and composed 56 percent of the cost of a gallon of regular gasoline. The share of the retail price of regular grade gasoline attributable to crude oil costs varies somewhat over time and among regions.

Federal, state, and local taxes are a large component of the retail price of gasoline. Taxes (not including county and local taxes) currently account for approximately 21 percent of the cost of a gallon of gasoline. Within this national average, federal excise taxes are 18.4 cents per gallon. In Nevada, State excise taxes are 23 cents per gallon. The tax is distributed with 17.65 cents going to the State Highway Fund and 5.35 cents going to cities and counties. In addition to these excise taxes, a 0.75-cent fee is collected for the State Petroleum Cleanup Trust Fund, and a 0.055-cent inspection fee is directed to the State Department of Agriculture for fuel pump inspections. Furthermore, there is up to 9 cents per gallon of optional fuel taxes in counties that have adopted a street and highway plan as part of a master plan, with slightly higher rates in Washoe and Clark Counties where the rates are indexed to inflation.

Refining costs and profits comprise about 14 percent of the retail price of gasoline. This component varies from region to region due to the different formulations required in different parts of the country.

Distribution, marketing, and retail dealer costs and profits combined make up 19 percent of the cost of a gallon of gasoline. From the refinery, most gasoline is shipped first by pipeline to terminals near consuming areas and then loaded into trucks for delivery to individual stations. The price on the pump reflects the price of transporting the gasoline and marketing the brand of the oil company and the other costs of operating the service station. It also reflects local market conditions and factors, such as the desirability of the location and the marketing strategy of the owner.

GASOLINE PRICE FLUCTUATIONS

Growth in U.S. oil production along with only modest growth in demand has reduced the U.S. reliance on imported oil supplies. According to the EIA, the Organization of the Petroleum Exporting Countries (OPEC), which is comprised of 12 countries, influences oil prices worldwide because its members possess such a great portion of the world’s oil supply, accounting for about 40 percent of the world’s production of crude oil and about 60 percent of the total internationally traded petroleum.

Despite recent turmoil in oil producing regions, gasoline prices have undergone a relative downward trend. This is in part due to the supply and demand for crude oil. While demand is dampened by increased technological efficiency and the slowing global economy, crude oil production, especially in the United States, has increased.

Gasoline prices normally fluctuate due to factors such as the season and local retail station competition. Weather, world events, and military conflicts can also increase the cost of gas. When crude oil prices are stable, retail gasoline prices tend to rise gradually before and during the summer when people drive more, and prices fall in the winter. The EIA cites that good weather and vacations cause gasoline demand in the summer months to average about 7 percent
higher than during the rest of the year. From 2004 to 2014, the average price for regular gasoline was about 47 cents per gallon higher in the summer months compared to January during that time period.

**VARYING PRICE OF GASOLINE ACROSS THE UNITED STATES**

Prices of gasoline vary from state to state for several reasons. Taxes are one reason, for example. Additionally, states farthest from the Gulf Coast often have higher gasoline prices. The proximity of refineries to crude oil supplies can be a factor, as well as shipping costs from refinery to market. Regional environmental programs can add to the cost of production, storage, and distribution, as well. Some areas of the country are required to use special “reformulated” gasoline with additives to help reduce carbon monoxide, smog, and toxic air pollutants that result when gasoline is burned or evaporates during fueling. Competition can be substantial between areas with only one or a few gas stations versus areas with a large number of gas stations in close proximity.

**ISSUES THAT MAY AFFECT FUTURE GASOLINE PRICES**

*Fuel tax indexing*

For many years, revenue devoted to road construction generated from gasoline taxes has declined as automobiles have become more efficient and fuel prices have increased.

To provide the necessary revenue to support Clark County’s transportation system, the 2013 Legislature passed Assembly Bill 413 (Chapter 540, *Statutes of Nevada*), which allows Clark County to impose an additional tax on gasoline and special fuels sold in the County. On September 3, 2013, the Clark County Commission approved an ordinance to enact the provisions of A.B. 413, with the requirement that the total increase in the tax rates over the three-year indexing period cannot exceed 19.2 percent of the initial base rate.

The rate became effective on January 1, 2014, and is indexed based on current federal, State, and local rates for gasoline and special fuels. It is permitted for three calendar years starting from its effective date. Clark County may continue indexing based on the federal and local rates in 2017 and into the future only if a ballot question is approved by Clark County voters at the 2016 General Election. Index rates from the three calendar years will be maintained regardless of the outcome of the vote.

The bill also requires voter approval of a ballot question at the 2016 General Election, seeking an additional State indexed tax rate. A statewide ballot question would seek approval of an additional indexed rate based on the current State gasoline and special fuel tax rates, with the proceeds distributed to the State Highway Fund.

A separate question would be added to the November 2016 ballot in all counties, except for Washoe and Clark Counties, for approval of an indexed rate based on the current federal and local fuel tax rates, with the proceeds dedicated to transportation projects in that county.

*Crude oil supplies*

In its *Annual Energy Outlook 2015 with Projections to 2040*, the EIA cites key factors that may affect prices for petroleum, including world demand, crude oil production, and supplies of other liquid fuels. Long-term price variation will likely be driven by the future demand of
developing and emerging countries. Higher levels of expected economic growth will lead to increased demand and prices. Decisions by OPEC regarding growth expectations may adversely affect prices if production does not meet future levels of growth in these and other developing countries.

*Unforeseen supply disruptions*

Any event that slows or stops production of gasoline for a short time, such as planned or unplanned refinery maintenance, can prompt bidding for available supplies. If the transportation system cannot support the flow of surplus supplies from one region to another, prices will remain comparatively high.

Unrest, or the threat of unrest, in oil-producing regions may drive prices higher. In response to actual or perceived threats to oil supplies, actors within the market may drive prices higher in an attempt to secure reserves in the near term or until the situation is resolved.