PHYS.ORG

3Qs: A tankful of reasons for gas price surge

March 12 2012, By Matt Collette

Richard Goettle is a lecturer of finance and insurance in the College of Business Adminsitration. Credit: File photo

Gas prices tend to increase in the summer, but the most recent spike, which began in February and appears on track to continue through March, has caught many drivers off guard. Northeastern University news office asked Richard Goettle IV, a finance and insurance lecturer in the College of Business Administration, to explain why drivers are suddenly paying a lot more at the pump.

Why are gas prices spiking now, at a time when gasoline costs are historically lower than in warmer months and when drivers are on the road more?

There's a huge amount of domestic fracking oil that is coming down through the nation's pipeline system from the northern United States and hitting the refineries and storage facilities in the southern tier states. The pipelines leaving these facilities are full — they can't handle any more gasoline — so we wind up importing gas from foreign countries for the East and West Coasts, where this glut of oil isn't available. U.S. refining and pipeline capacity is not keeping pace with U.S. production and storage capacity, so we've recently become a net exporter of gasoline. These are the domestic bottlenecks leading to higher gasoline prices even in the face of reduced demand.

Moreover, oil speculators, in recent years, have had a much more prominent role in the market, in addition to the actual liquid demand. Prices should be lower right now — in addition to lower demand, we've had a mild winter, so refiners could have stopped making heating oil and diesel fuel and switched to making gasoline earlier. It strikes me that these high prices have a lot more to do with what's going on in Iran, Syria and Yemen versus what's happening here. These tensions as well as some minor supply outages overseas are creating speculation in the futures market that helps bring prices up.

What factors influence how crude oil and gasoline are priced?

The gas market has always been priced as "last in, first out." This means gasoline is priced according to the cost of the last barrel of oil purchased. So if crude oil prices rise — even if you have a lot in surplus and in the pipelines — every gallon gets priced at the per-barrel cost you just paid. That's why gasoline prices rise so quickly and why drivers feel it so much at the pump. So as foreign crude oil prices have risen, all gas prices have gone up.

It's hard to find any one reason for the rise, though, because as gas prices are going up, people are searching for more fuel-efficient vehicles and they're taking more public transportation. People are working to buy less gasoline, which should be driving prices down, not up. So the fact that we're seeing these increases in the winter and not the summer — when more people drive and go on vacation — is problematic.

Why does Iran play such a key role in the global energy market?

If you have to take Iran out of the equation, that creates all kinds of action in the futures market, much like last year's civil war in Libya did. Iran produces a lot of oil — almost five percent of world output — so any change in its production or distribution would very much be felt at the pump. It was one thing when Iraq was taken out as a key player, because Saudi Arabia, the world's largest producer, and others were able to compensate for the difference. But, if you take Iran out of the oil market, Saudi Arabia and others can't compensate like they can when smaller quantities of oil are no longer in play. So, the tensions with Iran cause a very real concern in terms of the likelihood of higher gas prices.

Provided by Northeastern University

Citation: 3Qs: A tankful of reasons for gas price surge (2012, March 12) retrieved 1 May 2024 from https://phys.org/news/2012-03-3qs-tankful-gas-price-surge.html