

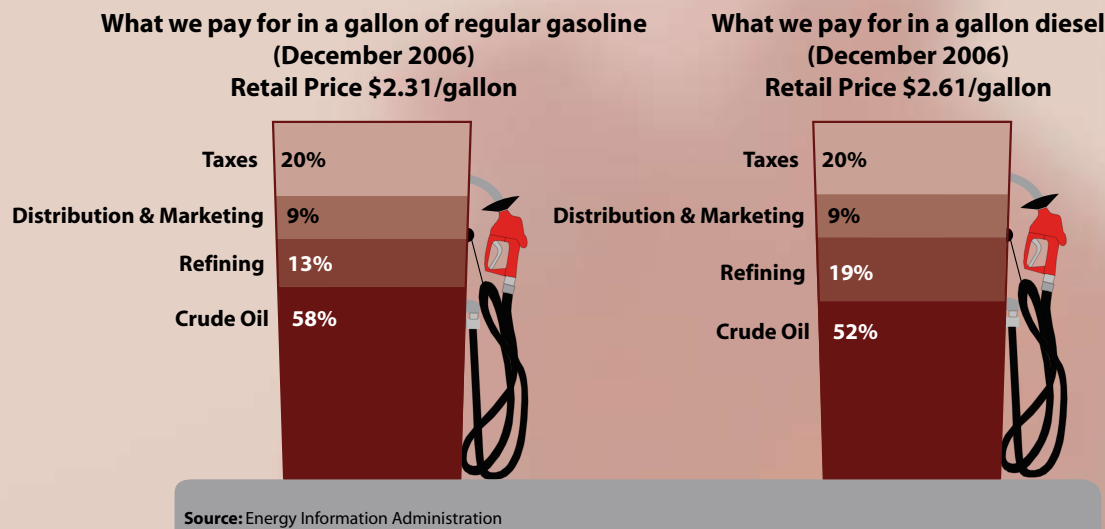
A Primer on Fuel Prices

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What are the components of the retail price of gasoline and diesel fuel?

The cost to produce and deliver gasoline and diesel fuel to consumers includes the cost of crude oil to refiners, refinery processing costs, marketing and distribution costs, retail station costs, and fuel 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.

The pumps below show the cost breakdown of these categories for a gallon of gasoline and diesel.



Using the retail prices above, state fuel taxes represent 9 percent of the price of a gallon of gasoline (21 cents) and 8.6 percent of the price of a gallon of diesel (22.5 cents).

The components for the gasoline and diesel fuel pumps are calculated by the federal Energy Information Administration in the following manner in cents per gallon and then converted into a percentage.

Crude oil pricing is based on the monthly average of the composite refiner acquisition cost, which is the average price of crude oil purchased by refiners.

Refining costs represents the difference between the monthly average of the spot price of gasoline or diesel fuel as it exits the refinery and the average price of crude oil purchased by refiners. These factors can vary widely, depending on the time when the components are being calculated.



TRANSPORTATION INVESTMENT MOVES THE ECONOMY IN THE 21ST CENTURY

Distribution and marketing costs are the difference between the average retail price of gasoline or diesel fuel, as computed from the EIA’s weekly survey, and the sum of the other three components (crude oil, refining and taxes). These factors can vary widely, depending on the time when the components are being calculated.

Taxes include a monthly national average of federal and state taxes applied to gasoline or diesel fuel (the current federal tax on gasoline is 18.4 cents and diesel 24.4 cents; the Iowa tax on gasoline is 21 cents and diesel 22.5 cents).

Iowa Road Use Tax Fund (RUTF)

Established in 1949 by the 53rd Iowa General Assembly, the RUTF has provided a stable and reliable source for investing in the state’s primary, secondary and municipal roadway systems.

After some off-the-top diversions, receipts into the fund are distributed according to a formula of 47.5 percent for the Primary Road System, 24.5 percent for the Secondary Road System, 8 percent for farm-to-market county roads, and 20 percent for city streets. Legislation that went into effect in 2003, which involved the transfer of jurisdiction of some roadways from the state to either a city or county government, requires a share of the Primary Road System funds (1.75 percent) to be paid to local governments.

For state fiscal year 2006, receipts into the RUTF totaled an estimated \$1.101 billion. This represents \$431.1 million in fuel taxes, \$407.2 million in registration and other miscellaneous fees, \$220.1 million in use tax on the purchase of motor vehicles, \$21.3 million from underground storage tank fees, \$11.4 million from driver licenses, and \$10 million in interest.

State Tax on Motor Fuel - 2007 (cents per gallon)

Fuel	Tax	Effective Date
Regular gasoline	21.0	The last gasoline tax increase was effective 1/1/89. Minor adjustments to the rate are made annually based on the percentage of ethanol-blended fuel sold during the previous calendar year compared to total gasoline sold. The last adjustment was effective 7/1/06 when the rate increased from 20.7 cents per gallon to 21 cents per gallon, and will remain at that rate until 6/30/07.
Gasohol (ethanol blend of 10 percent)	19.0	1/1/89
Diesel	22.5	1/1/89
Liquid propane	20.0	1/1/89
E85	17.0	1/1/06



Federal Highway Trust Fund

Fuel taxes and other highway-user revenues collected by the federal government are placed in the Federal Highway Trust Fund. Congress appropriates these funds to the states per provisions in the surface transportation act - Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).

Federal Tax on Motor Fuel – 2007 (cents per gallon)

Fuel	Tax	Effective Date
Gasoline	18.4	10/1/97
Gasohol	18.4	1/1/05 (5.1 cents exemption promotes use)
Diesel	24.4	10/1/97
Liquid propane	13.6	10/1/97

What are the main factors that affect gasoline and diesel fuel prices?

Besides road use taxes, the following are the main factors that affect gasoline and diesel fuel prices:

Cost and supply of crude oil: Crude oil prices are determined by worldwide supply and demand. The Organization of Petroleum Exporting Countries (OPEC) has significant influence on prices by setting an upper production limit on its members who produce about 40 percent of the world's crude oil. Prices spike in response to disruptions in the international and domestic supply of crude oil, such as the oil embargo in 1973, the Iran/Iraq war in 1980, the current war in Iraq, and the 2005 hurricanes in the Gulf of Mexico.

Tight refining capacity and international fuel demand: U.S. refineries have been operating at above 90 percent capacity over the last 10 years. Most other countries rely even more heavily on gasoline and diesel for transportation than does the United States, and refining capacity is tight worldwide. U.S. diesel fuel prices are more and more affected by competing international demand for refined distillates.

Product supply/demand imbalances: Prices of transportation fuels are generally more volatile than prices of other commodities because the U.S. transportation fleet is so heavily dependent on petroleum and few alternative fuels are available. If supply declines unexpectedly due to refinery problems or lagging imports, fuel inventories may decline rapidly. When stocks are low and falling, some wholesalers and marketers may bid higher for the available product. If the transportation system cannot support the flow of surplus supplies from one region to another quickly, prices will remain comparatively high. These are normal price fluctuations experienced in all commodity markets.



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Seasonality in the demand for certain fuel products: U.S. gasoline and diesel demand is fairly predictable. Gasoline prices tend to increase during major holiday periods and the summer vacation travel season. Diesel fuel is used by farmers and for transporting goods to stores to build inventories during the winter holiday season. Cold weather in the Northeast, where most heating fuel oil is consumed, leads to increased use of petroleum products and can apply upward pressure on fuel prices.

Transportation costs: Transportation costs generally increase with increasing distance between the retail location and distribution terminals and refineries. Areas farthest from the Gulf Coast (the source of nearly half of the diesel fuel produced in the United States) tend to have higher prices.

Regional operating costs and local competition: The cost of doing business by individual dealers can vary greatly depending on where the dealer is located. These costs include wages and salaries, benefits, equipment, lease/rent, insurance, overhead, and state and local fees. Even retail stations next to each other can have different traffic patterns, rents and sources of supply that affect their prices. The number and location of local competitors can also affect prices.