

Gas Prices

GRACIE LHEE, Correspondent:

Jack Jackson has been selling gas on this corner in Southeast Washington D.C. for thirty-five years. His price changes every couple of days. So far this month it's changed fifteen times. That's because what he pays for the gas – the wholesale price – keeps changing.

JACK JACKSON, Gas station owner:

When I got a cheaper load of gas that would justify me putting a cheaper load of gas on the street. If it was higher it would go the other way.

GRACIE LHEE:

So why does the wholesale price change so much? To understand you have to think globally... and understand supply and demand.

The supply comes from all over the world - and changes hands many times before it arrives at the pump. It travels from the well, to refineries, to pipelines, to the gas stations. Each stop affects the price. Supply is also controlled in part by OPEC – The Organization of Petroleum Exporting Countries.

MIKE BURDETTE, Department of Energy:

It is made up of the world's largest petroleum exporters – Saudi Arabia, Iran, Venezuela, and Nigeria. There are twelve in total. They produce around a third of the world's crude oil. But because they band together to set production targets they are able to exert a great deal of control over the price.

GRACIE LHEE:

Then there is demand. Like most countries in the world, The United States needs more fuel than it produces. Oil companies must compete to make up the difference.

MIKE BURDETTE:

When demand rises more than supply, we need to import more of our supply. In order to get those imports away from other countries we need to outbid them. So as a result, our price has to go up significantly.

GRACIE LHEE:

Sometimes demand drops. Americans usually drive less in the winter than the summer. And when the weather is mild like this past January, we use less fuel oil. The supply goes up and the price goes down.

It's not just supply and demand that sets the prices here. It's also the competition.

DAN GILLIGAN, Petroleum Marketers Association:

The single most important job of many gas station managers, and they all do it every day when they drive to work. They drive around all the gas stations in four or five blocks of their station to see what the street prices are at their competitors.

JACK JACKSON:

So I want to have something pretty comfortable to the area. Usually in my location I try to set the price probably a couple of cents cheaper.

GRACIE LHEE:

He has to do that because customers shop for the best price.

JACK JACKSON:

In the neighborhood I'm in, people usually work here and go to the other parts of the city. So they have a way of knowing what the price is at my competitors. So, therefore, I'll set a price usually a little cheaper than my competitors.

DAN GILLIGAN:

If a gas station can net one penny a gallon on their sales that year they are normally pretty happy.

GRACIE LHEE:

Mr. Jackson makes about \$3,000 a month selling gasoline. But that's not enough to cover his expenses – what it costs him to run the gas station. He makes up the difference, and makes his profit, by repairing cars and selling snacks.

JACK JACKSON:

I've been here for 35 years so I definitely wouldn't be selling at a loss, but I would want to watch my competitors and I guess, just like them, watch me.

GRACIE LHEE:

This is Gracie Lhee for *the.News*