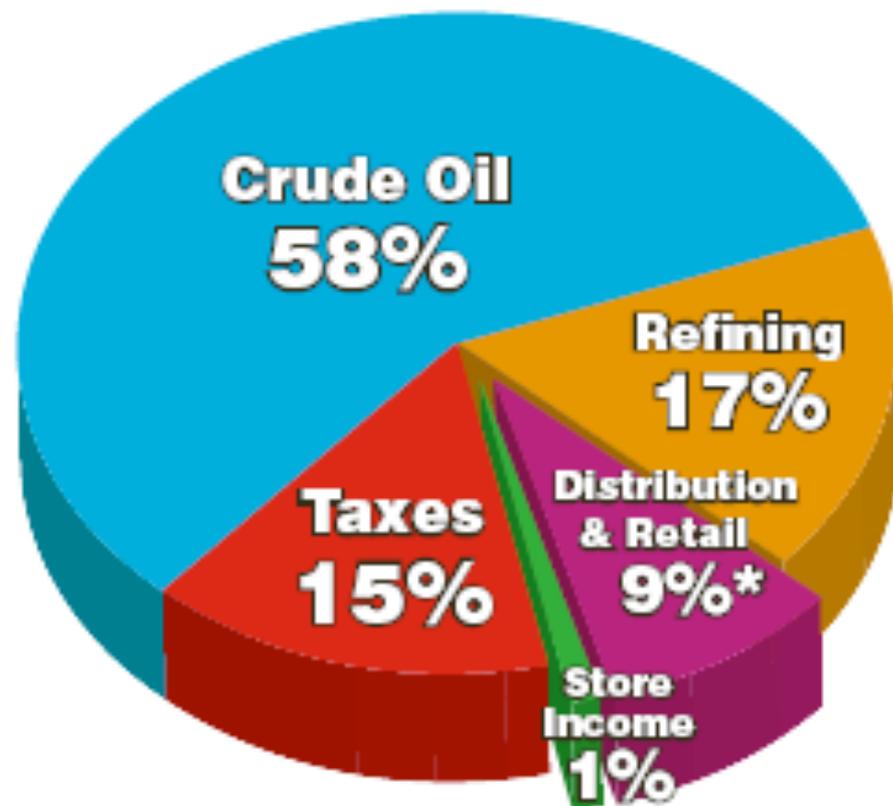


## Gas Price Backgrounder Notes

1. The retail price of gasoline is affected by a variety of factors, including the supply and price of crude oil, refinery operations, transportation, retail overhead and taxes.
2. The worldwide price of crude oil, which is the raw material for making gasoline, is determined by supply and demand and is often affected by world events. Crude prices are affected by a large number of factors including growth in world demand, OPEC actions, political uncertainties, etc. Timing and availability of imports from outside the U.S. can affect the supply/demand balance as well as unforeseen operating problems within the refining and distribution system, particularly during periods of major refinery maintenance. A \$1 per barrel increase in crude generally translates to a two to three cent per gallon increase in the price of gasoline.
3. The second major contributor to the price of gasoline is the amount of tax that is paid. In West Virginia our state tax is now 32.2 cents per gallon. Furthermore, federal tax is an additional 18.40 cents per gallon. In West Virginia every time you fill up you pay 50.6 cents tax on every gallon. That is a lot of tax! In WV we pay 5.1 cents per gallon more in tax on each gallon of gas than the national average.
4. The distribution system that is used to deliver gasoline from the refinery to the station impacts the price as well. For gasoline, product pipelines are the most cost efficient means of moving product. As you can see on the above map, no product pipelines directly serve West Virginia, forcing deliveries to the state to be done by more expensive means, typically trucks.
5. Explanation on next slide.
6. None
7. This slide shows the number of terminals and pipelines for all of our surrounding states as well as West Virginia. It clearly shows that the other states have a better distribution system for gasoline.
8. West Virginia has only one very small refinery in the state, located in Newell, WV. It is operated by Ergon and has a limited capacity. Again, with the exception of one state, Maryland, our surrounding states have a huge advantage over us here as well.
9. This slide shows the consumption of gasoline in all of the surrounding states. With West Virginia's small population, our annual consumption of gasoline is small in comparison to most states. Thus, we have fewer gallons to tax.
10. West Virginia has approximately 1300 retail locations that sell gasoline. The average station sells approximately 53,647 gallons per month. Typically, when a station sells fewer gallons they charge more for it to allow them to cover the fixed costs (payroll, facilities, and insurance) for their business. Stations with large volumes can often sell their products for less.
11. Due to our limited distribution system, our state has less inventory than others. Much of our fuel comes from out of state. Bringing fuel from out of state increases the trucking costs.
12. Marketers have "pain at the pump". When wholesale prices increase, retail prices generally increase at a slower rate as retailers often engage in a high-stakes game of chicken, absorbing some or all of the wholesale price increases until they see others pass along their wholesale price increases. Credit card fees are now the industry's second largest expense, accounting for 8.3 percent of industry gross margin dollars, second only to total labor expenses (33.5 percent). We pay the credit card fee on not only the product but on the taxes that we collect for the state and federal governments. Over seventy percent of all gasoline purchases are now made with plastic. (They were only 38 percent in 2003). Higher gas prices contribute to lower in-stores sales, where margins are more robust, because people have less disposable income. Sales of premium and mid-grade, which have healthier margins than regular gasoline, have declined as well. Increases in the retail gasoline price have led to a significant increase in gasoline theft brought on by misdirected consumer anger at higher prices. Finally all retailers are hit by higher costs of goods sold, as higher fuel prices add to the cost of shipping goods to the store.

Jan Vineyard – President  
WV Oil Marketers and Grocers Association (OMEGA WV)  
Contact at: (304) 343-5500

# WHERE DOES YOUR FILL-UP GO?

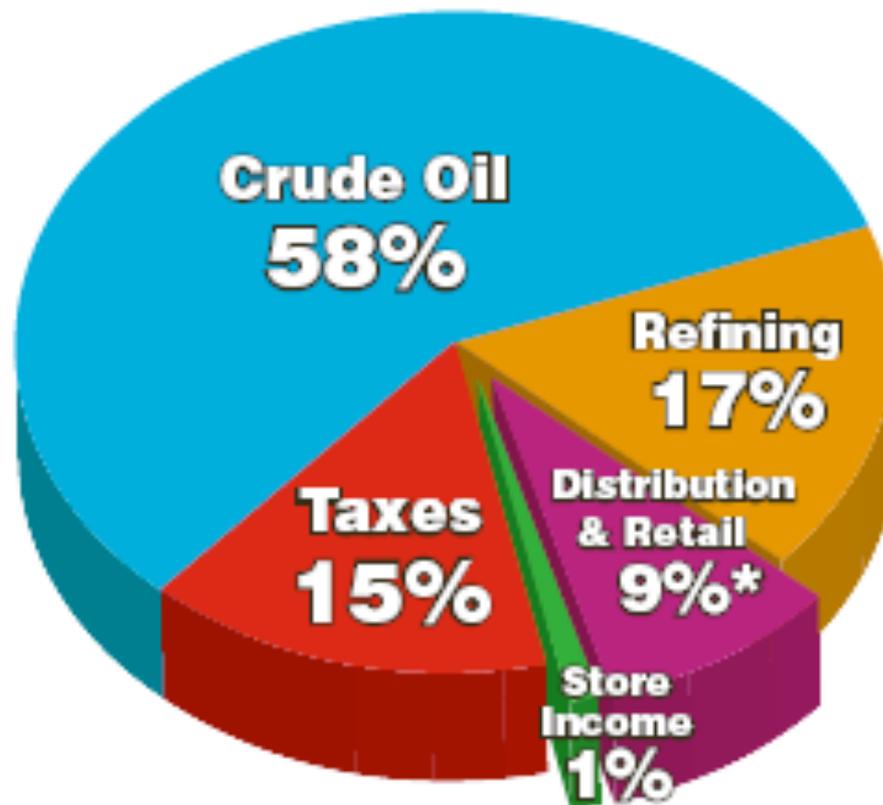


Average 2007 Data: NAACS, U.S. Energy Information Administration

Learn more at [www.nacsonline.com/gasprices](http://www.nacsonline.com/gasprices)

\*20% of distribution & retail costs go to credit card companies

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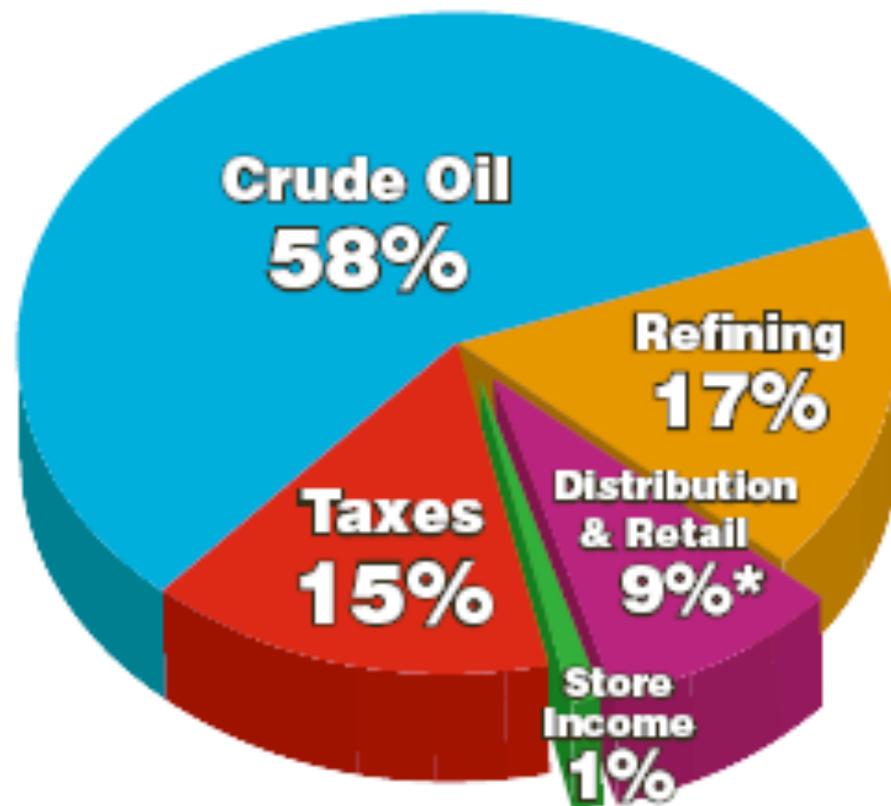


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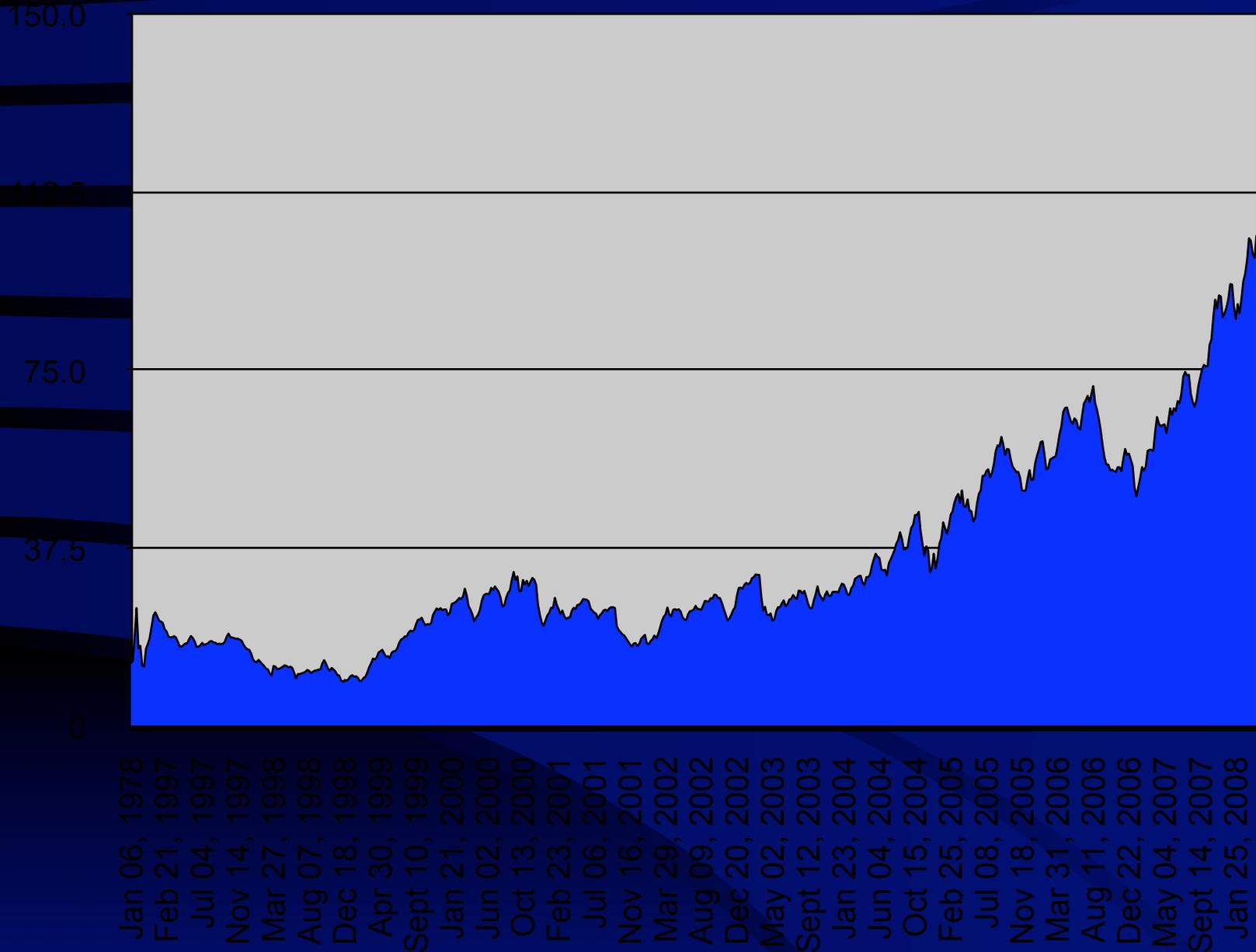


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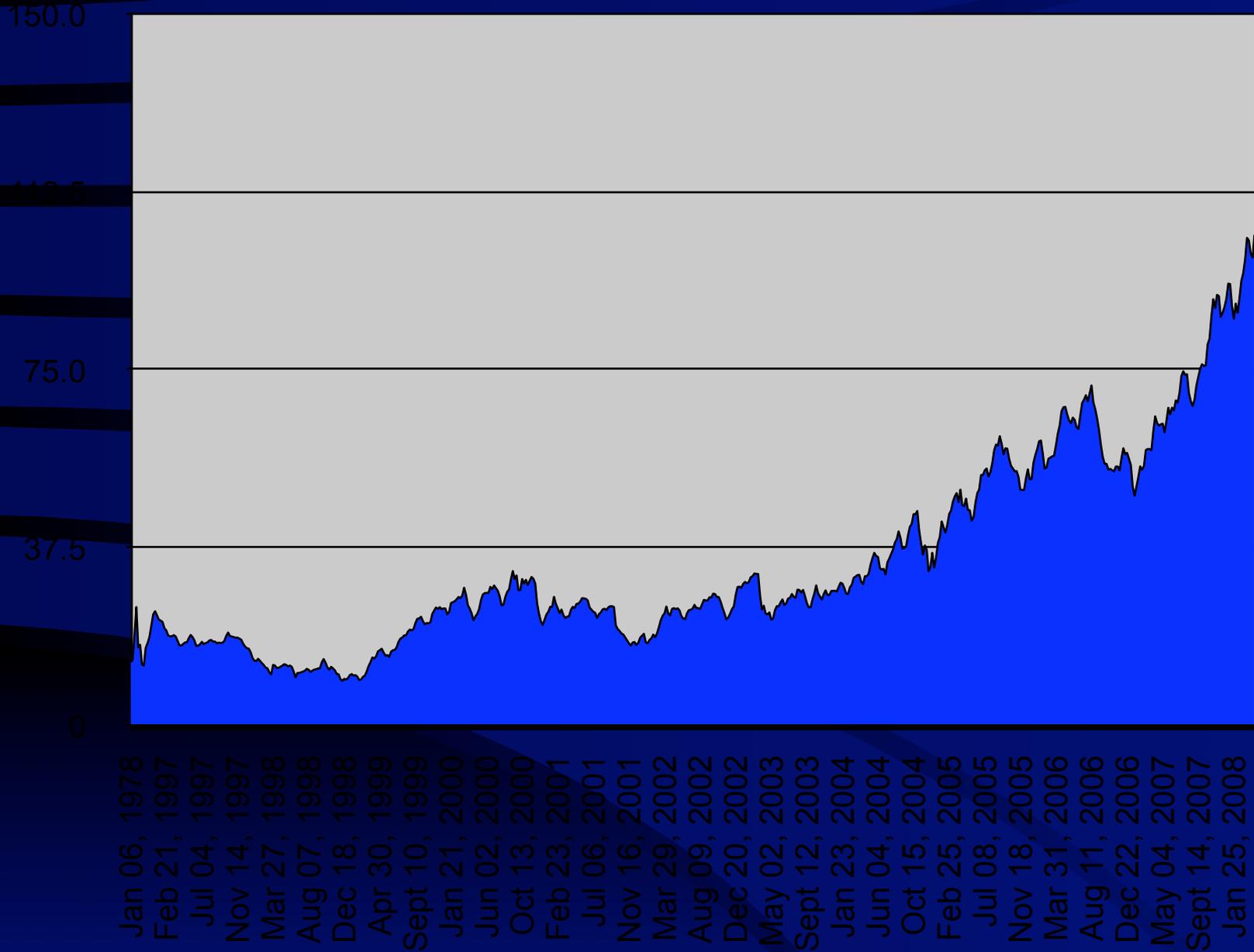
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# World Crude Oil Prices All Countries - Spot Price (Dollars per Barrel)



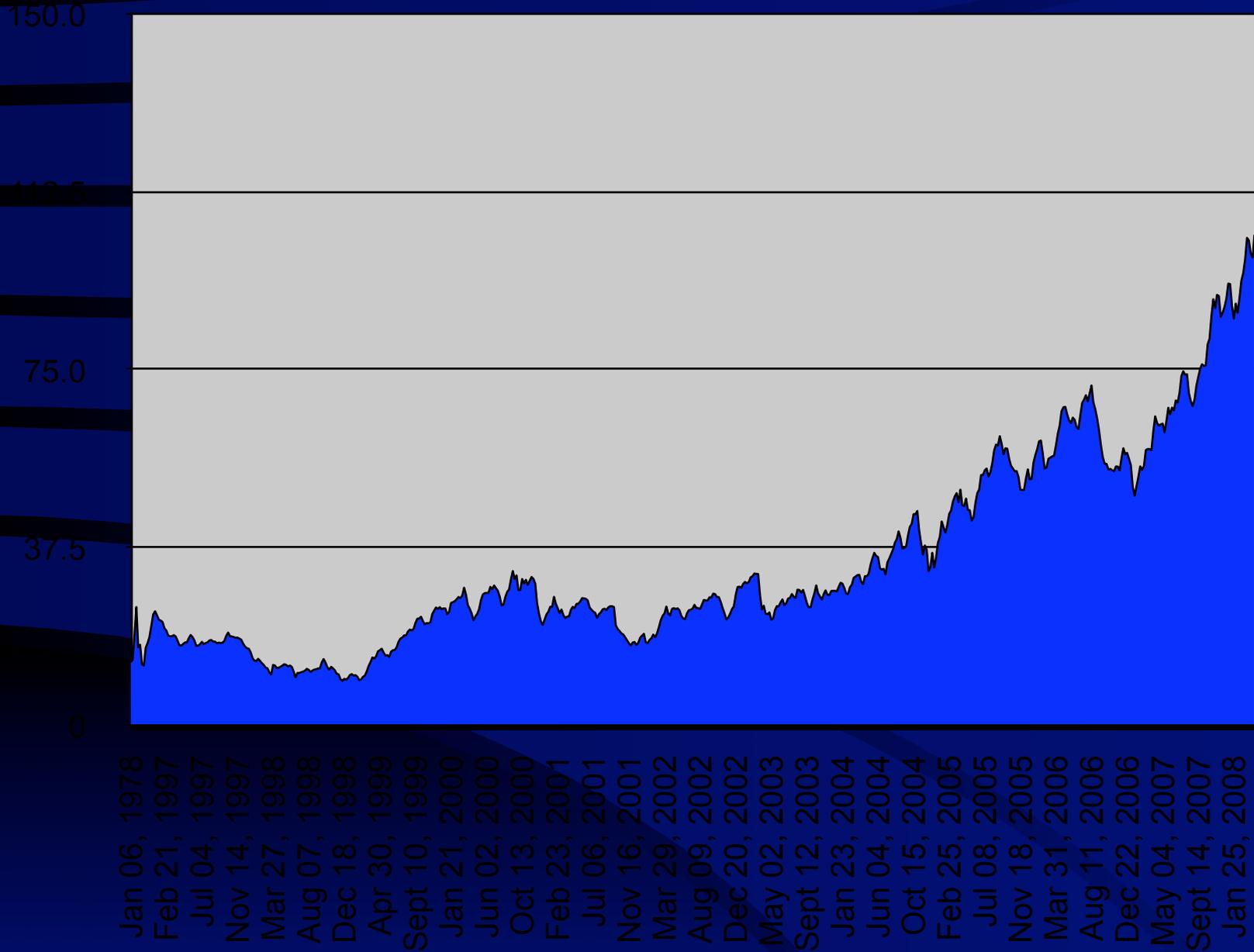
Source: US Department Of Energy Website - EIA.DOE.GOV

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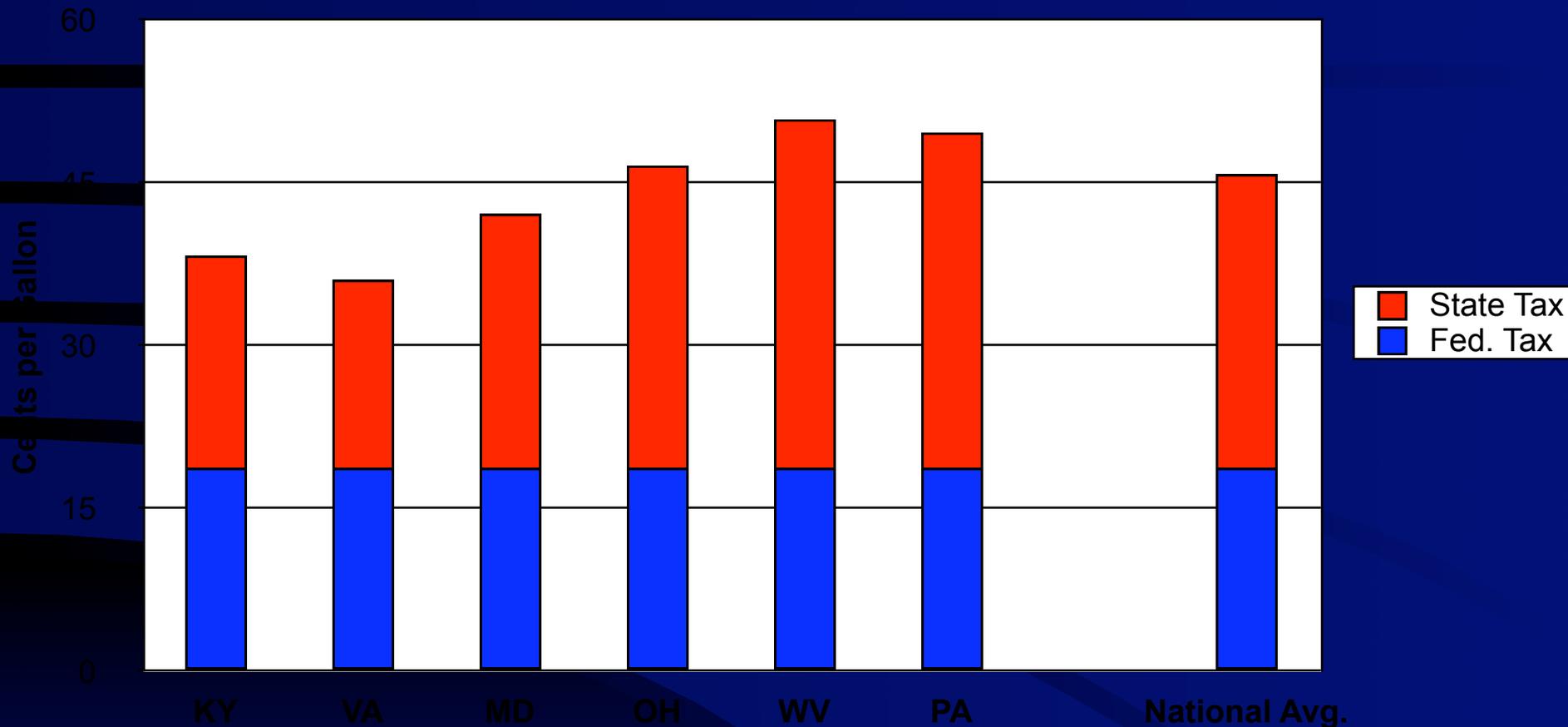
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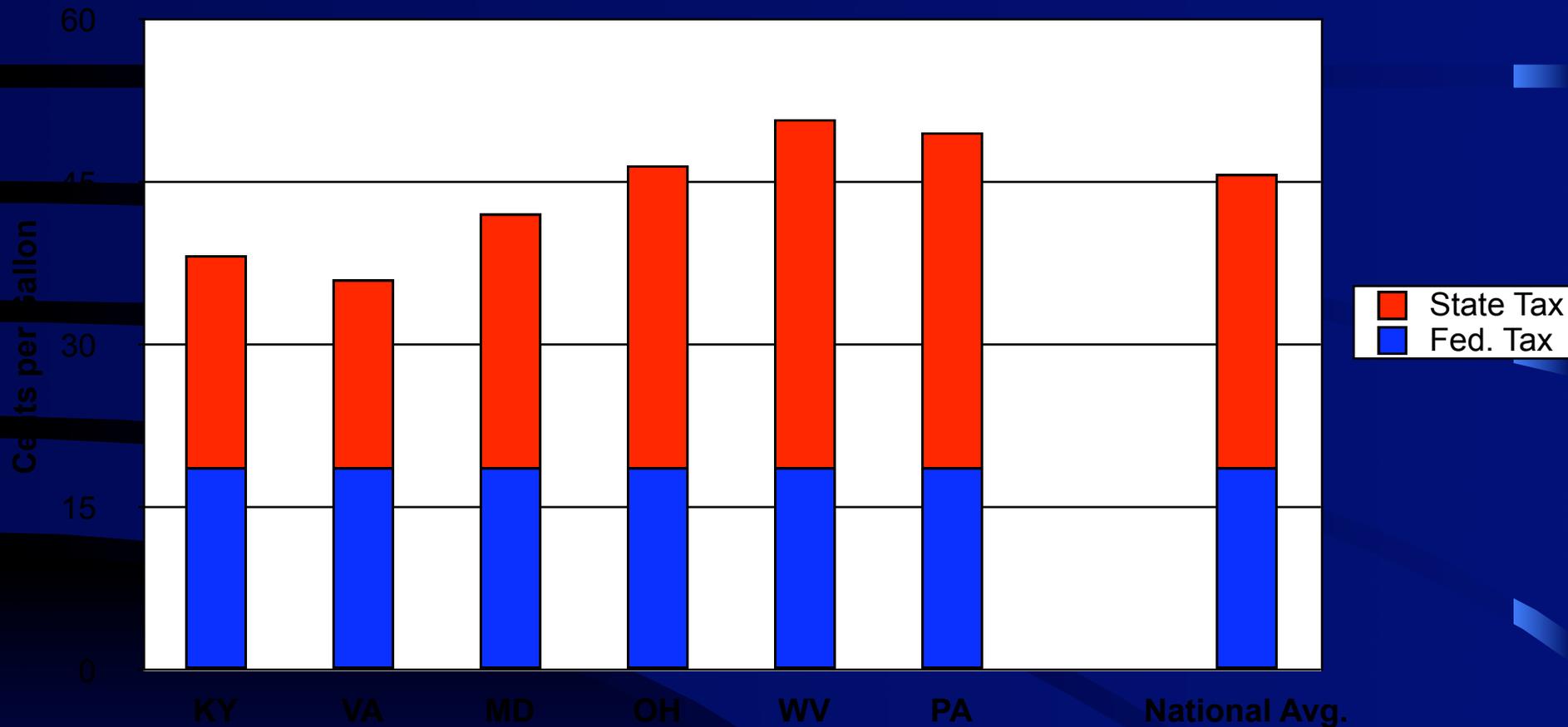
Source: US Department Of Energy Website - [EIA.DOE.GOV](http://EIA.DOE.GOV)

# How Much Do We Pay In Gasoline Taxes?



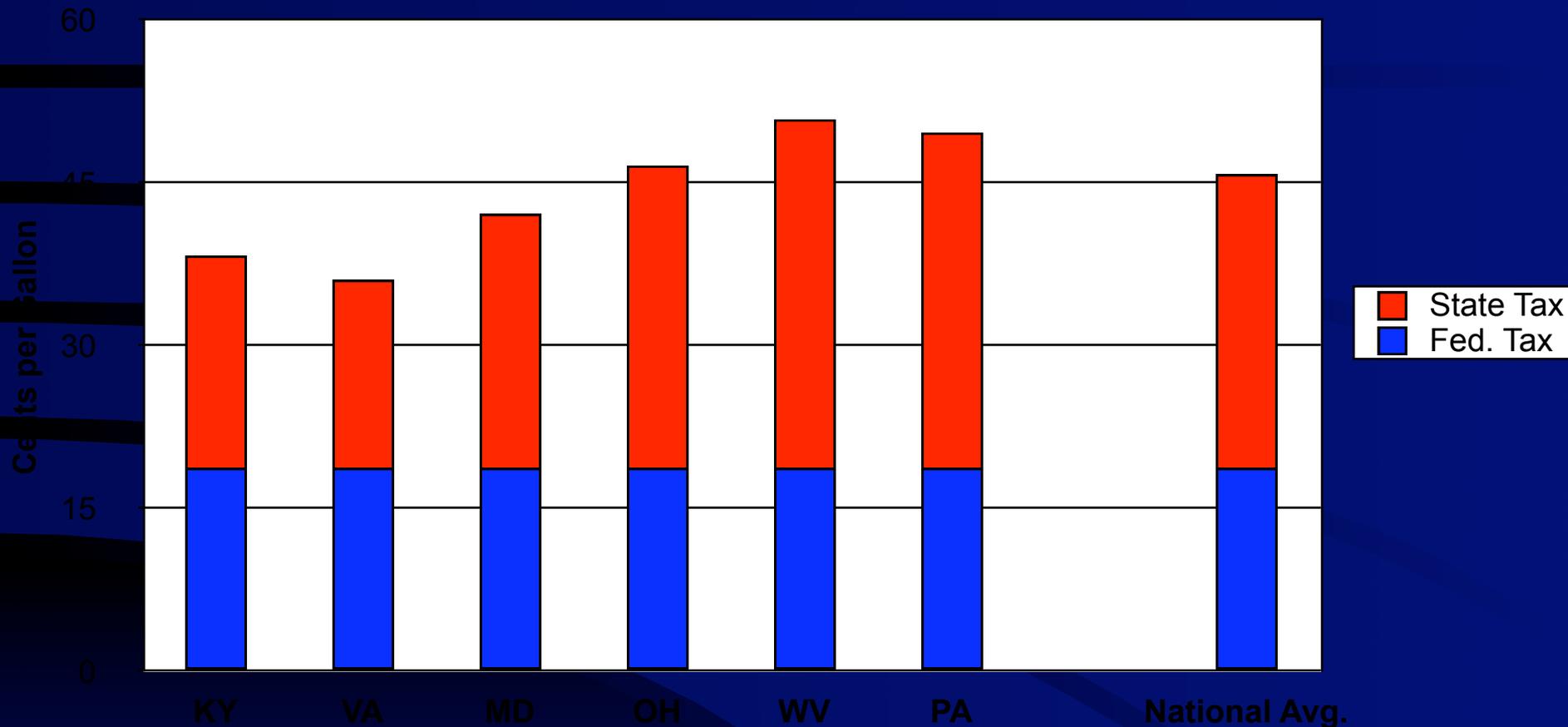
West Virginia state tax is 5.1 cents per gallon above the national average.

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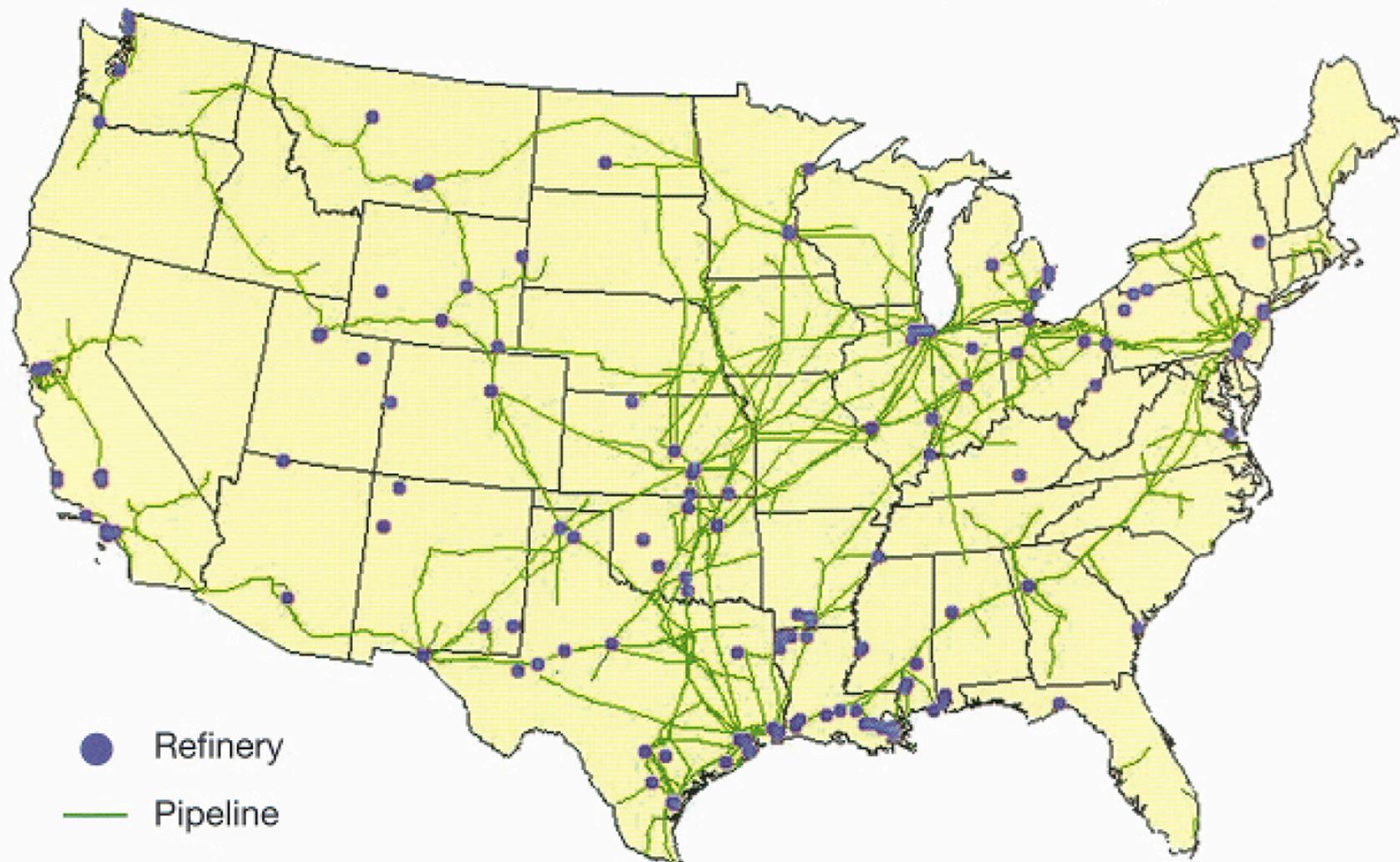
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# U.S. Gasoline Distribution System



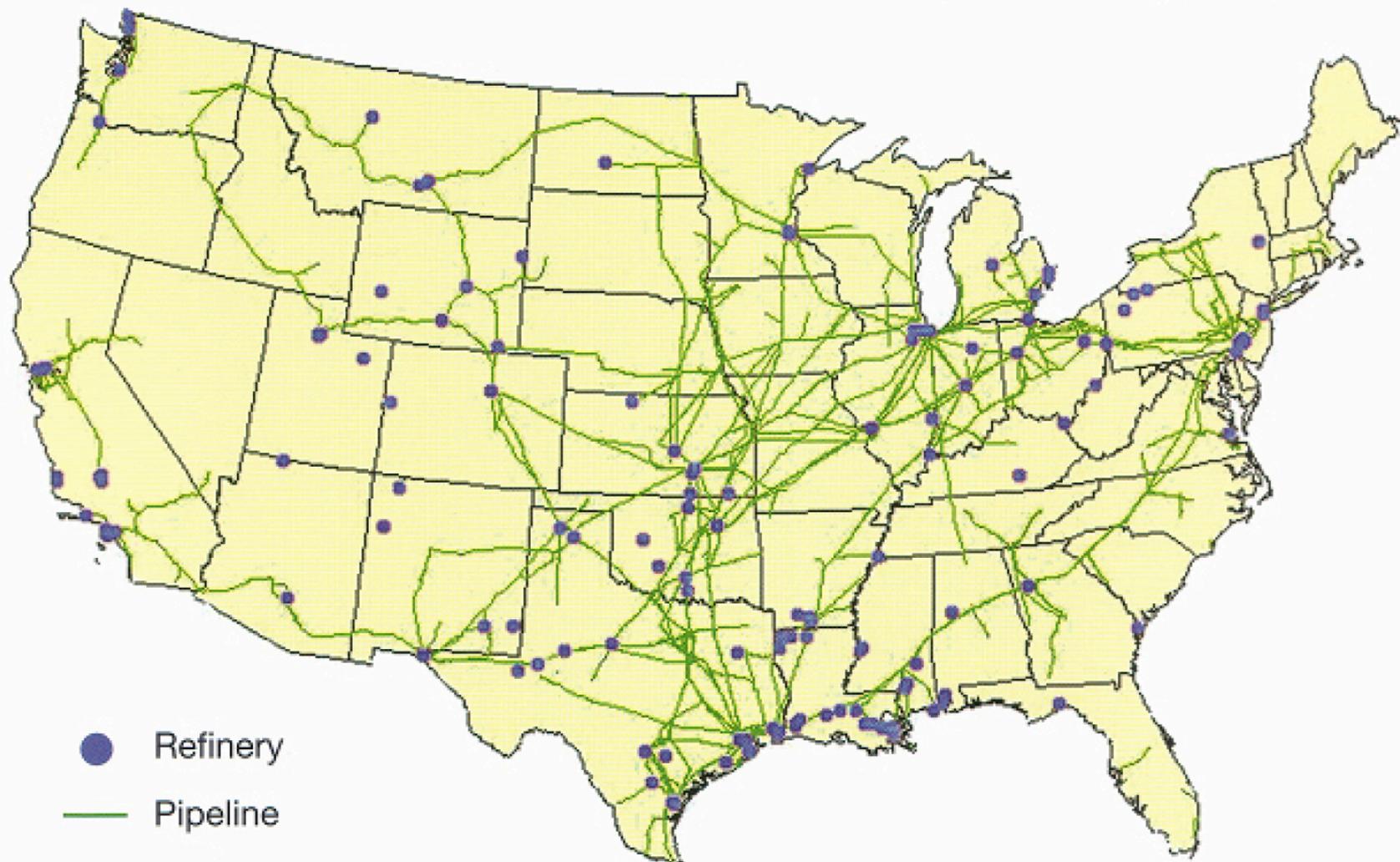
Graphic: Courtesy of NACS, National Association of Convenience Stores  
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Graphic: Courtesy of NACS, National Association of Convenience Stores  
© Copyright 2000 PennWell MAPSearch (used with permission)

# U.S. Gasoline Distribution System



Graphic: Courtesy of NACS, National Association of Convenience Stores  
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# U.S. Gasoline Supply Network - By Region



Graphic: Courtesy of NACS, National Association of Convenience Stores  
Source: Energy Analysts International, Inc.

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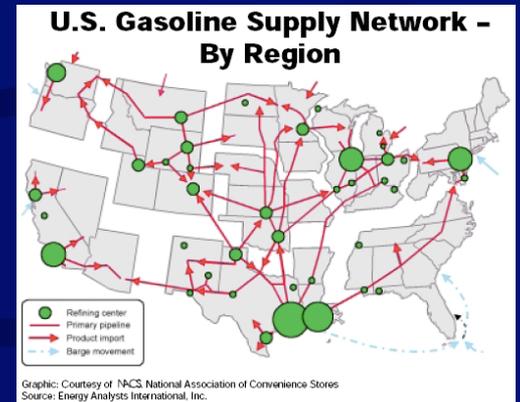
# U.S. Gasoline Supply Network - By Region



Graphic: Courtesy of NACS, National Association of Convenience Stores  
Source: Energy Analysts International, Inc.

# U.S. Gasoline Supply Network - By Region

The complex gasoline supply structure in the U.S. varies greatly by region, with some areas more sensitive to supply imbalances.



Two regions have more supply than required to meet demand and are therefore able to transport excess supply to other markets. These regions are generally less likely to face extreme price spikes when the distribution system is disrupted.

- **Mid-continent:** Has sufficient refining capacity to meet demand in the region, but is “long” on supply due to large volumes of gasoline moving via pipeline from the Gulf Coast through the region to the Midwest.
- **Gulf Coast:** Has major refining centers that supply large volumes to other regions, including the Midcontinent, Midwest, and Eastern Seaboard markets. Gulf Coast refiners and several foreign refining centers are the sources of supply for other U.S. regions.

Four regions have significant refining bases that allow them to provide refined fuel to meet much of their fuel needs. However, since demand in the region is greater than supply, they must rely on additional supplies. Disruptions to their refining operations can have a significant impact on the price of gasoline in these regions, especially those with high demand for fuel.

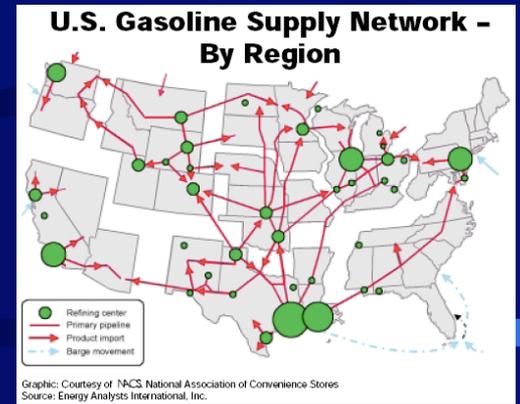
- **Midwest:** Some additional fuel is brought in by barge up the Mississippi River, with the majority brought in by pipeline from the Gulf Coast.
- **Pacific Southwest:** Additional fuel is brought in by pipeline from West Texas to Phoenix, and via tankers from the Gulf Coast, Caribbean, and other foreign sources.
- **Northeast:** Additional fuel is brought in via pipeline from the Gulf Coast, and from sources in Eastern Canada and overseas.
- **Pacific Northwest:** Additional fuel is brought in via pipeline from the Rockies and tankers from California.

Two regions have limited refining capacities and rely on fuel to be brought in from other regions. These regions can face price variations when supply from other regions or countries is disrupted.

- **Rocky Mountain:** Has a refining base of small refineries and relies on additional fuel brought in by pipeline from the Mid-continent and Texas Panhandle.
- **Southeast:** Has a very small refining capacity and most states, except Florida, are supplied by pipeline from the Gulf Coast. Florida is supplied by barge from the Gulf Coast, with significant foreign supply imported into the Atlantic Coast ports.

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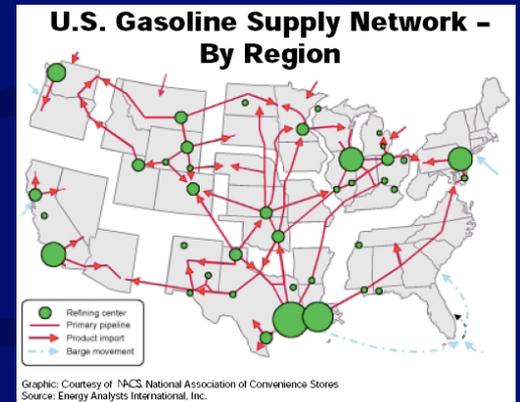
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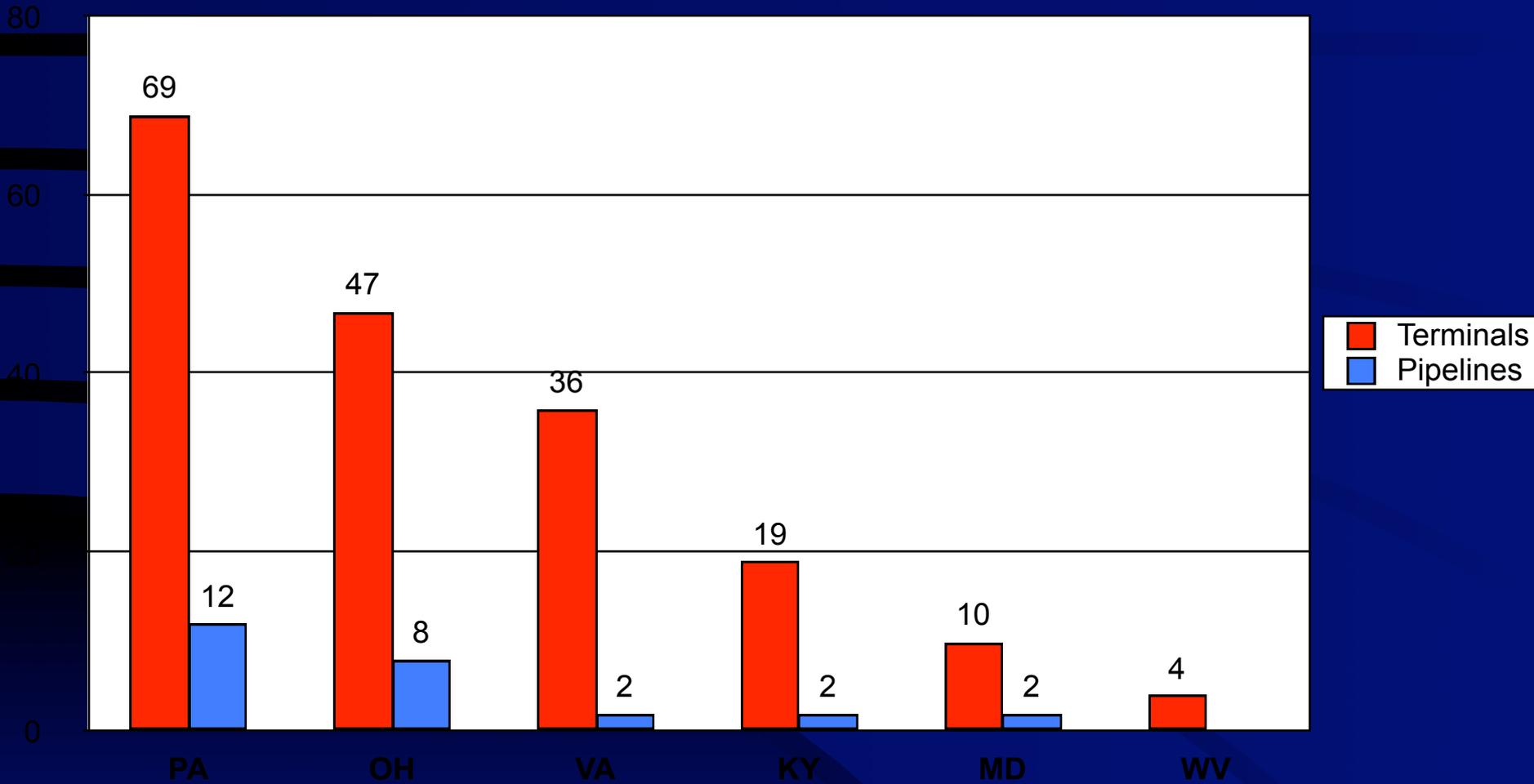
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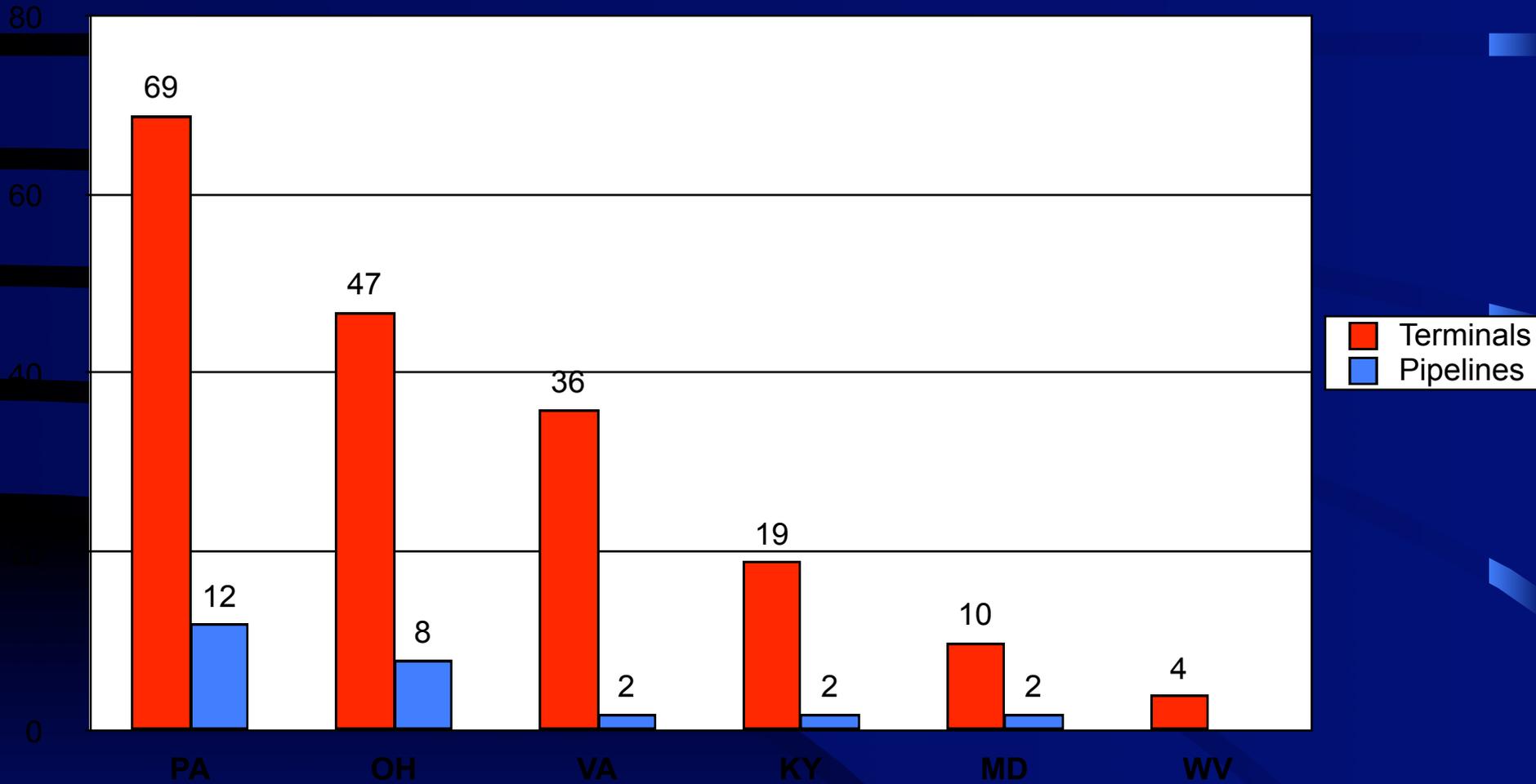
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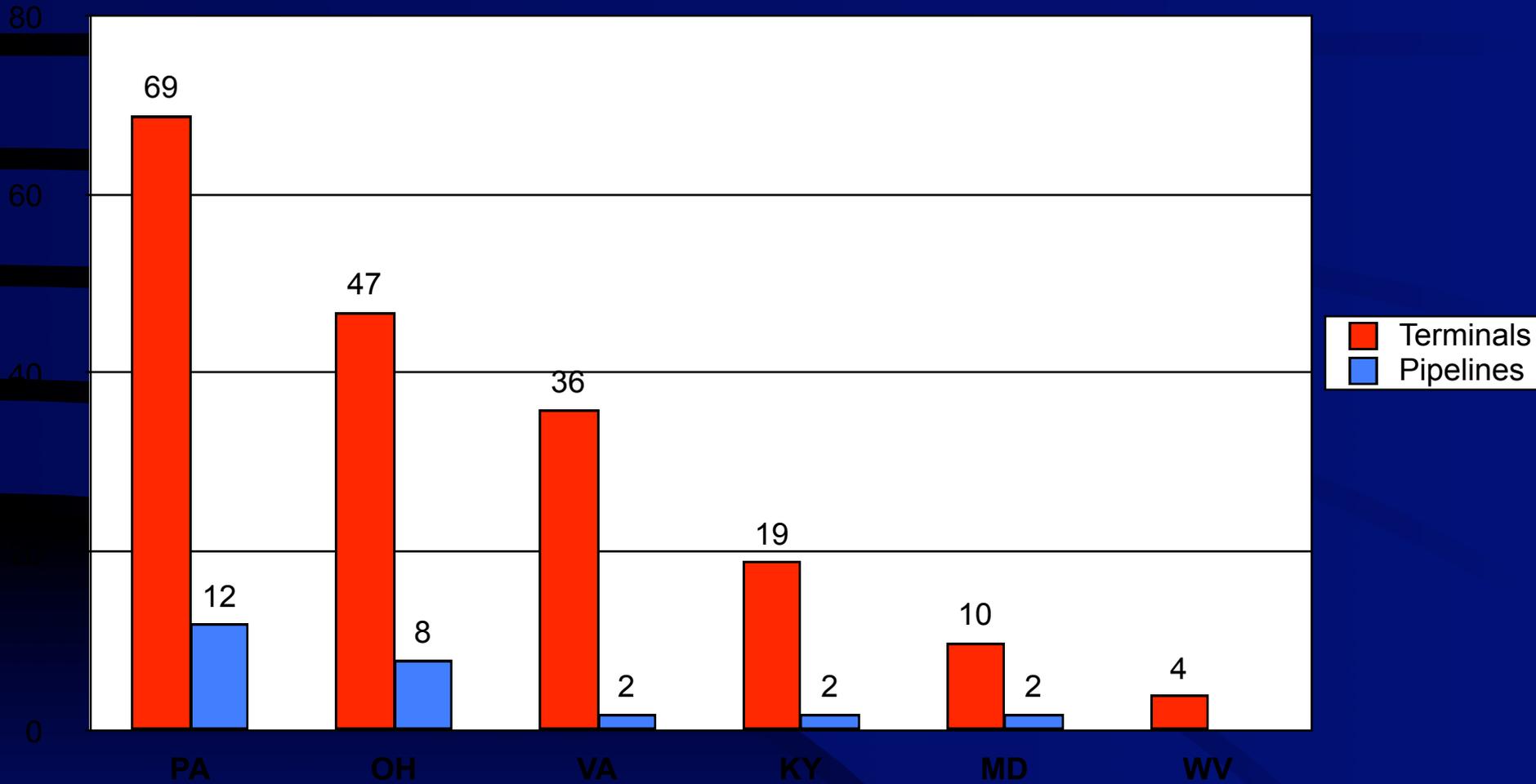
# Distribution Sources By State



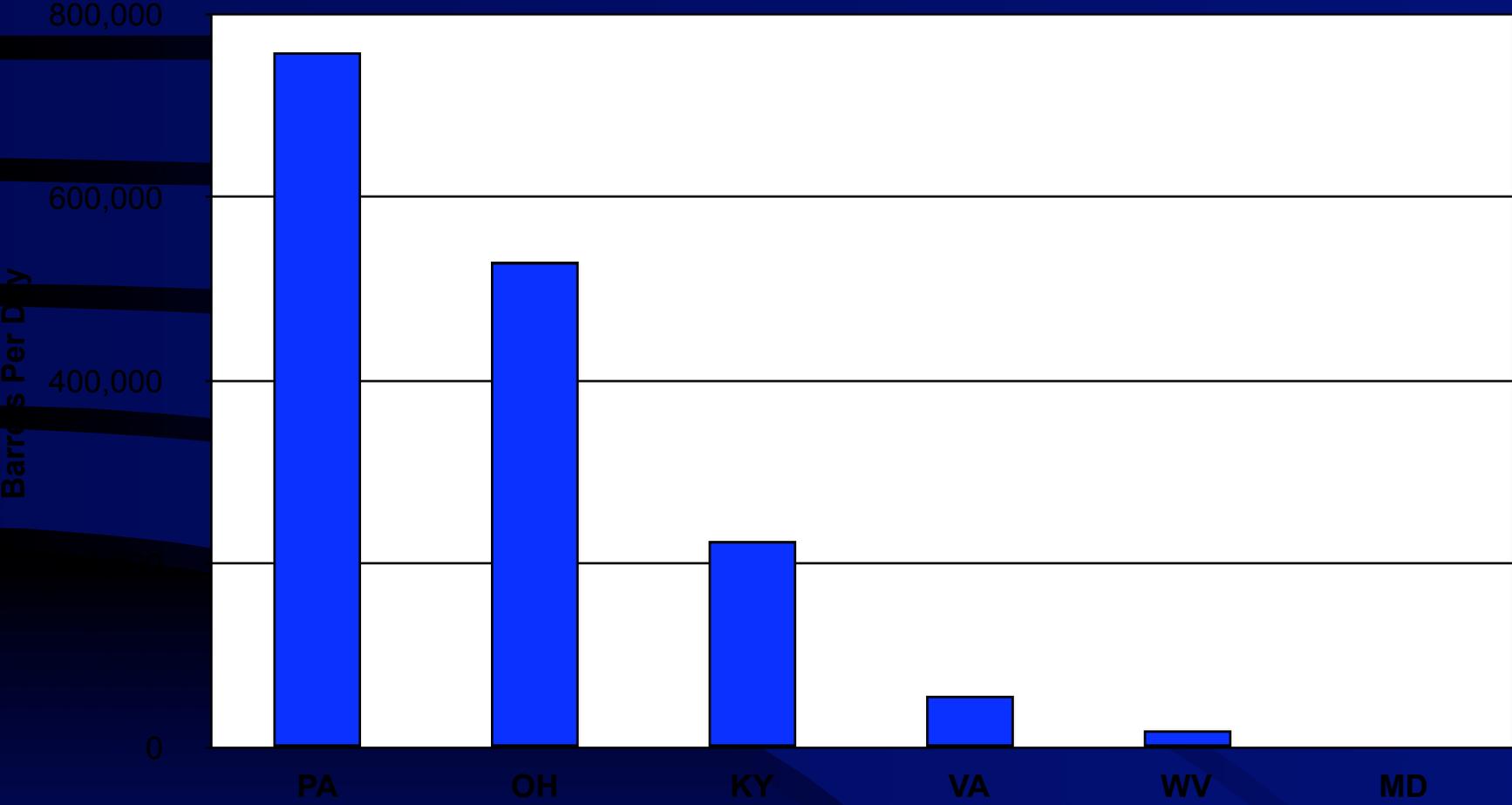
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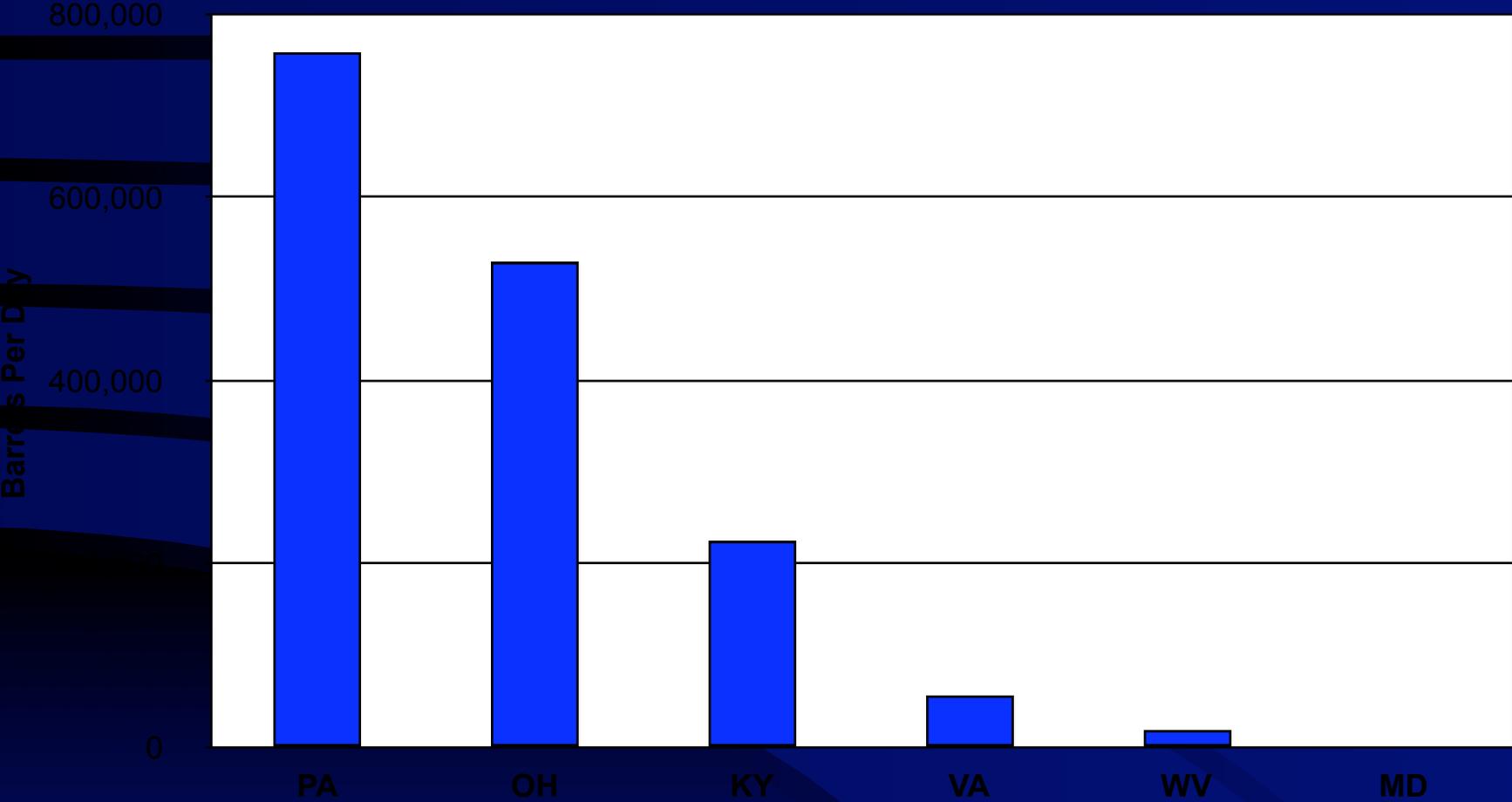
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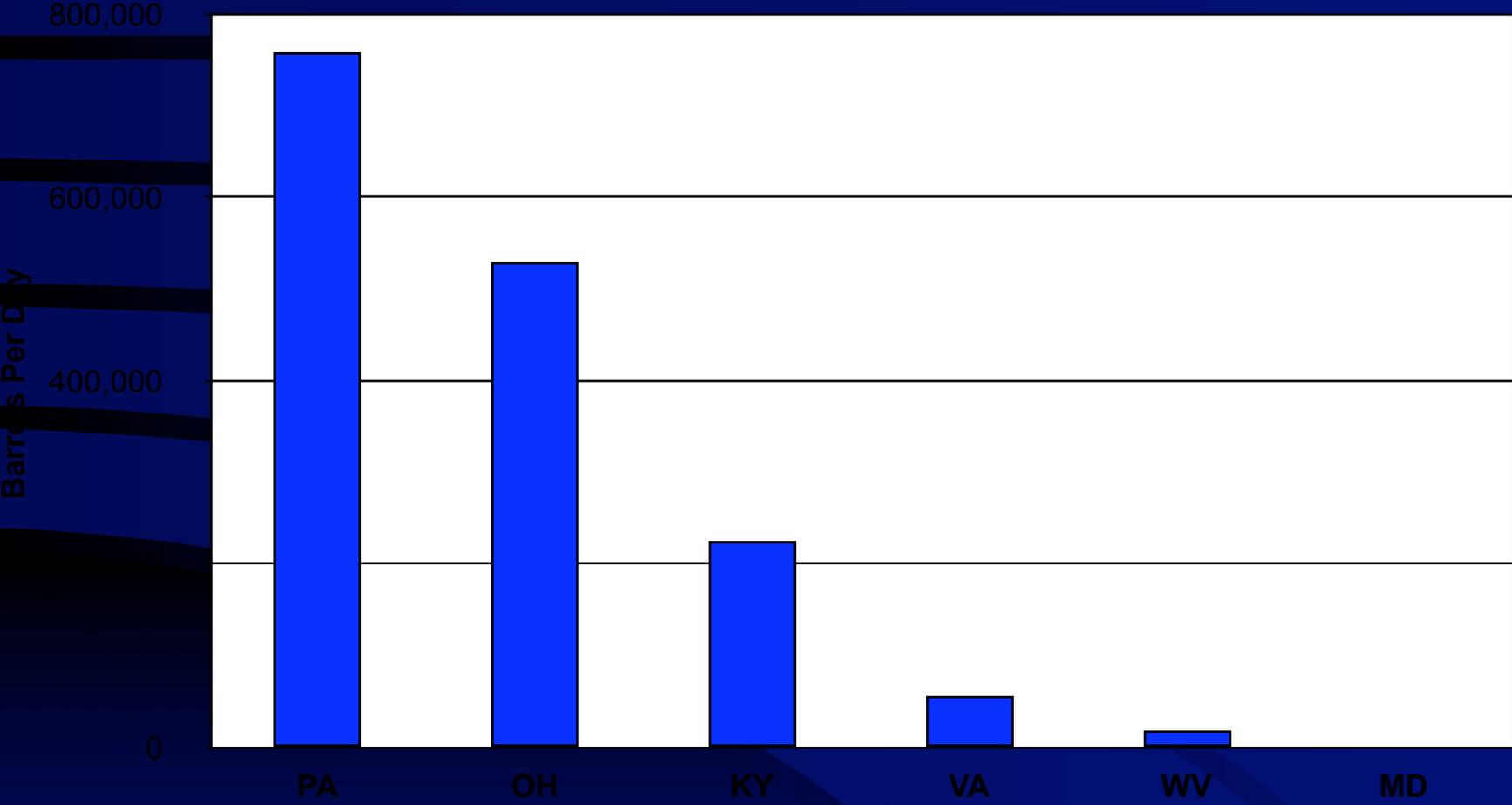
# Refining Capacity By State



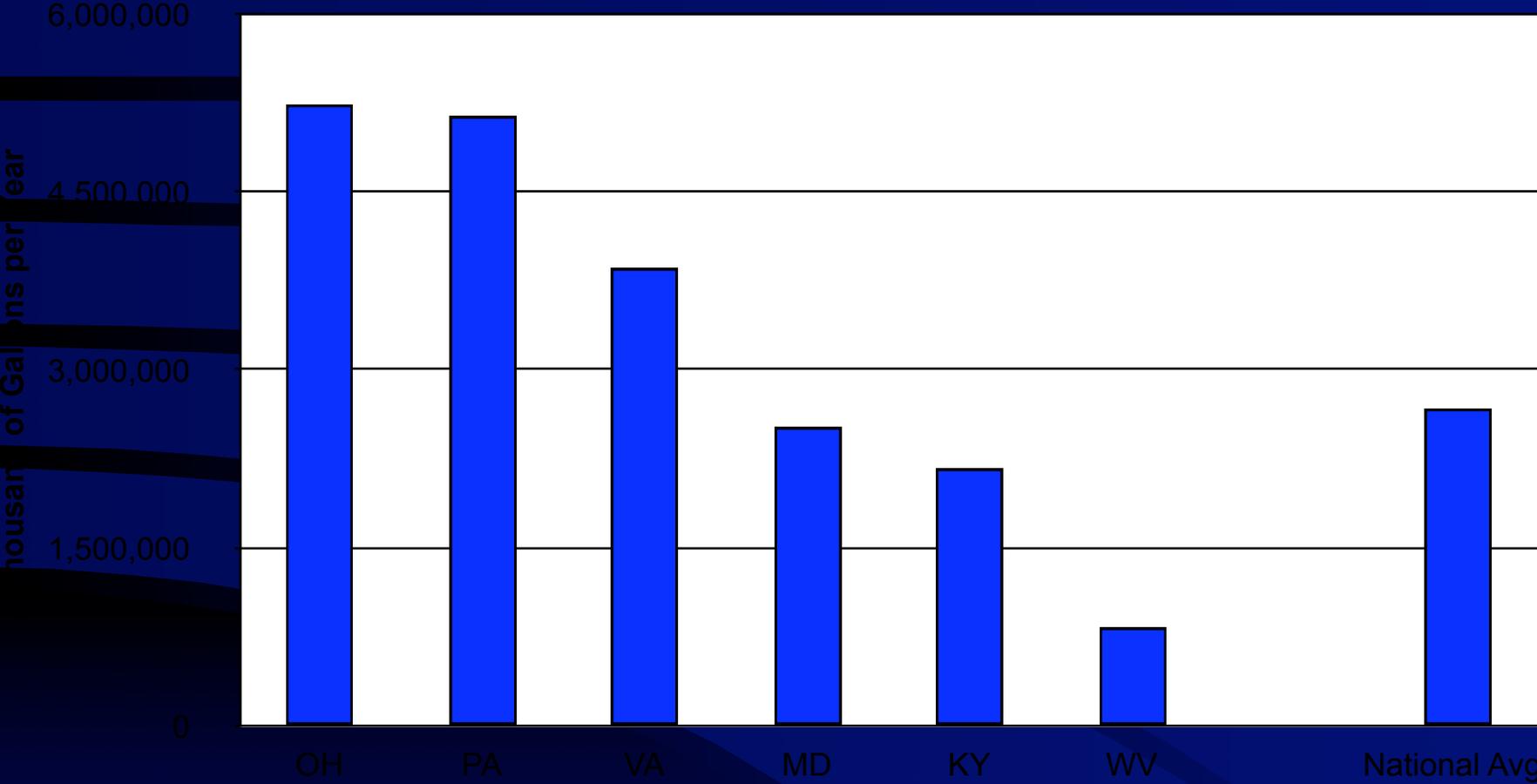
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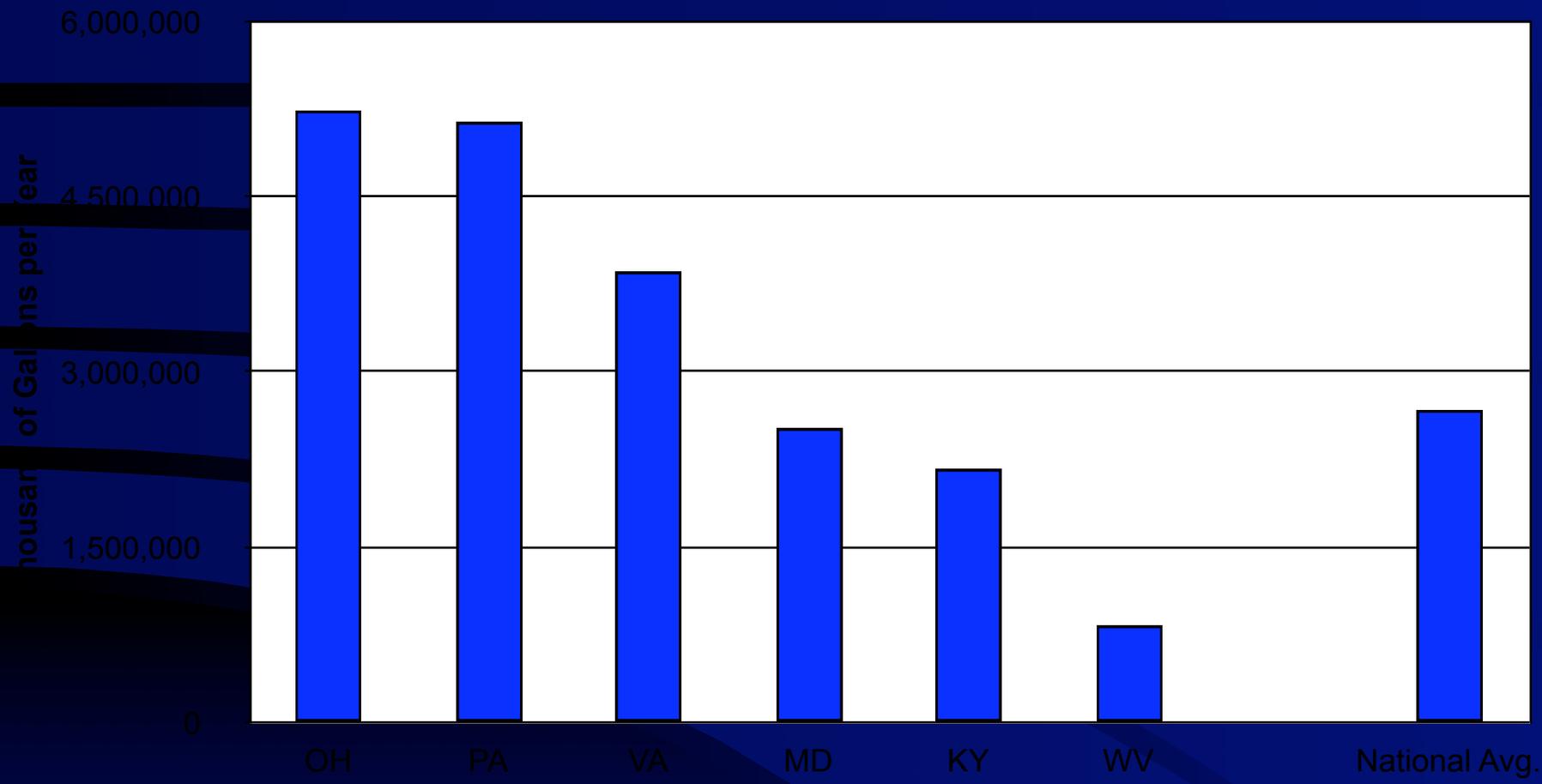
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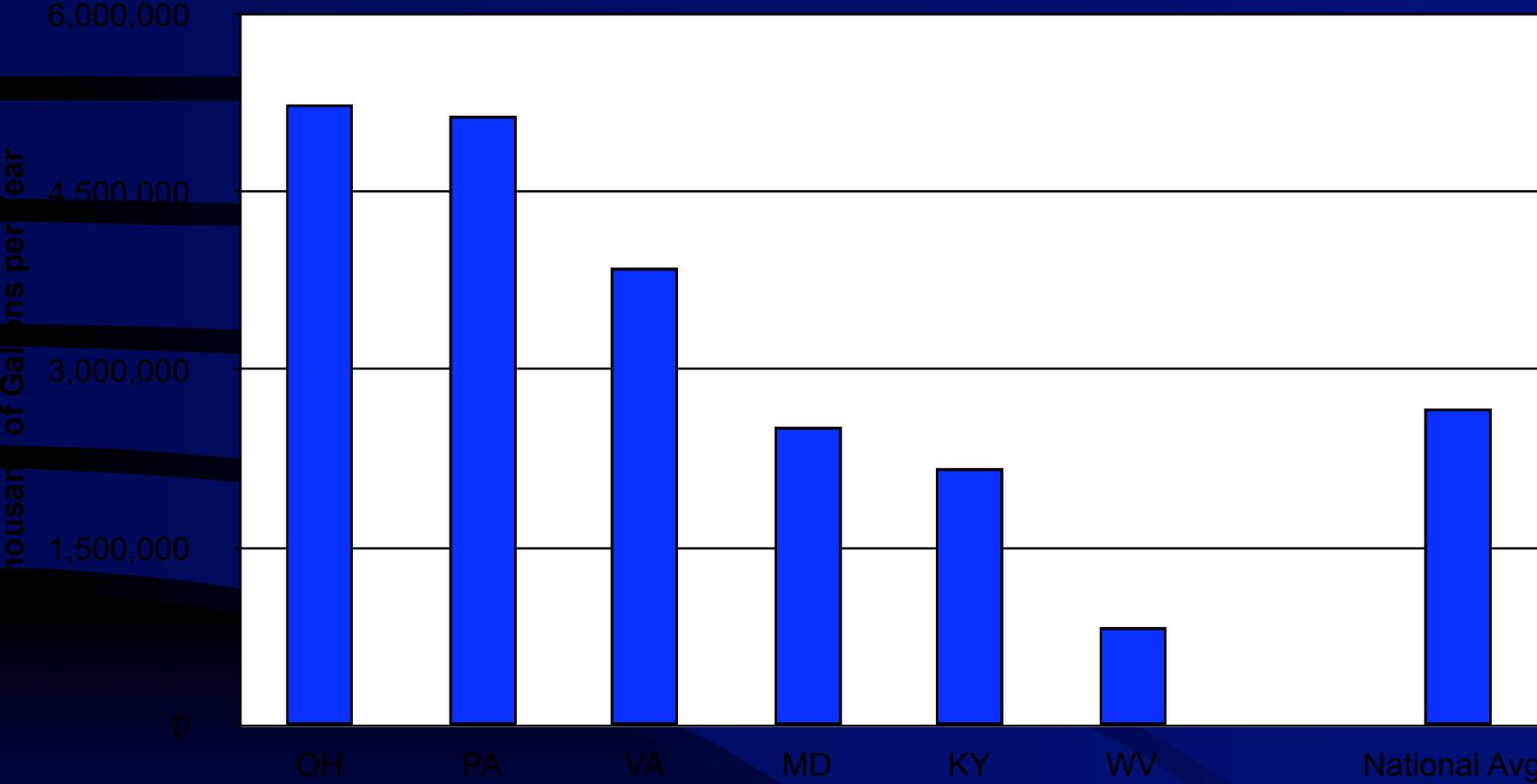
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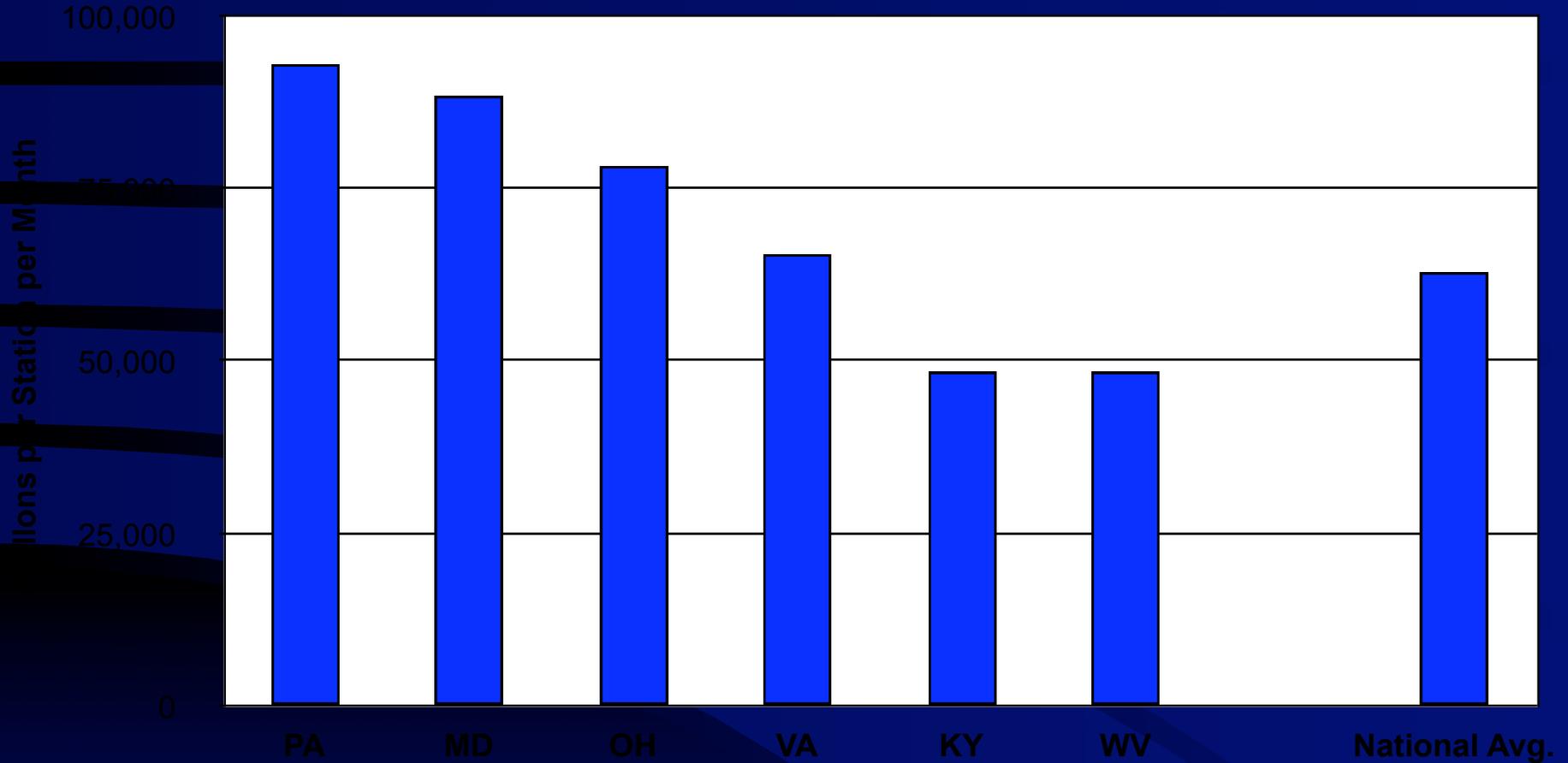
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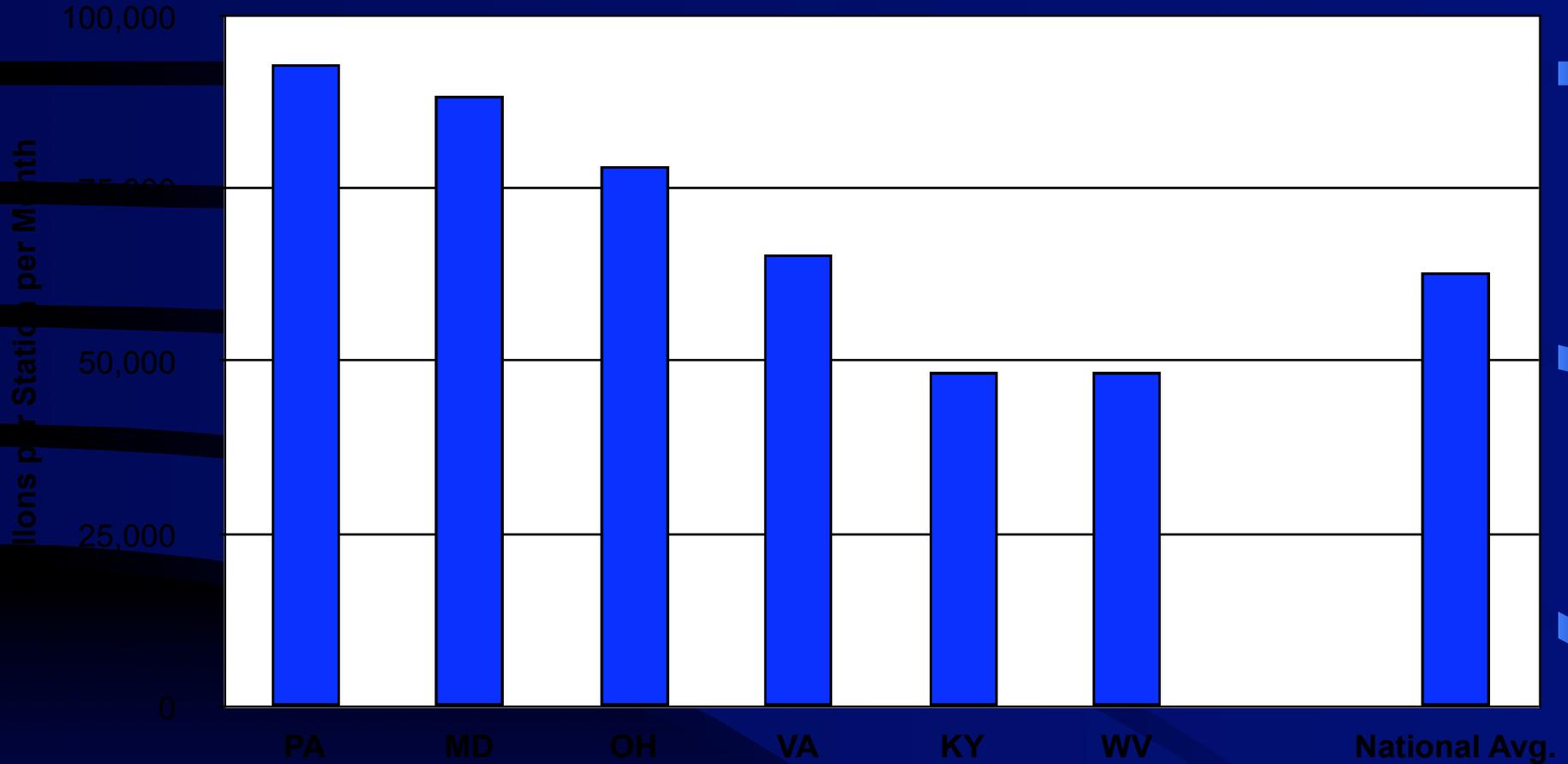
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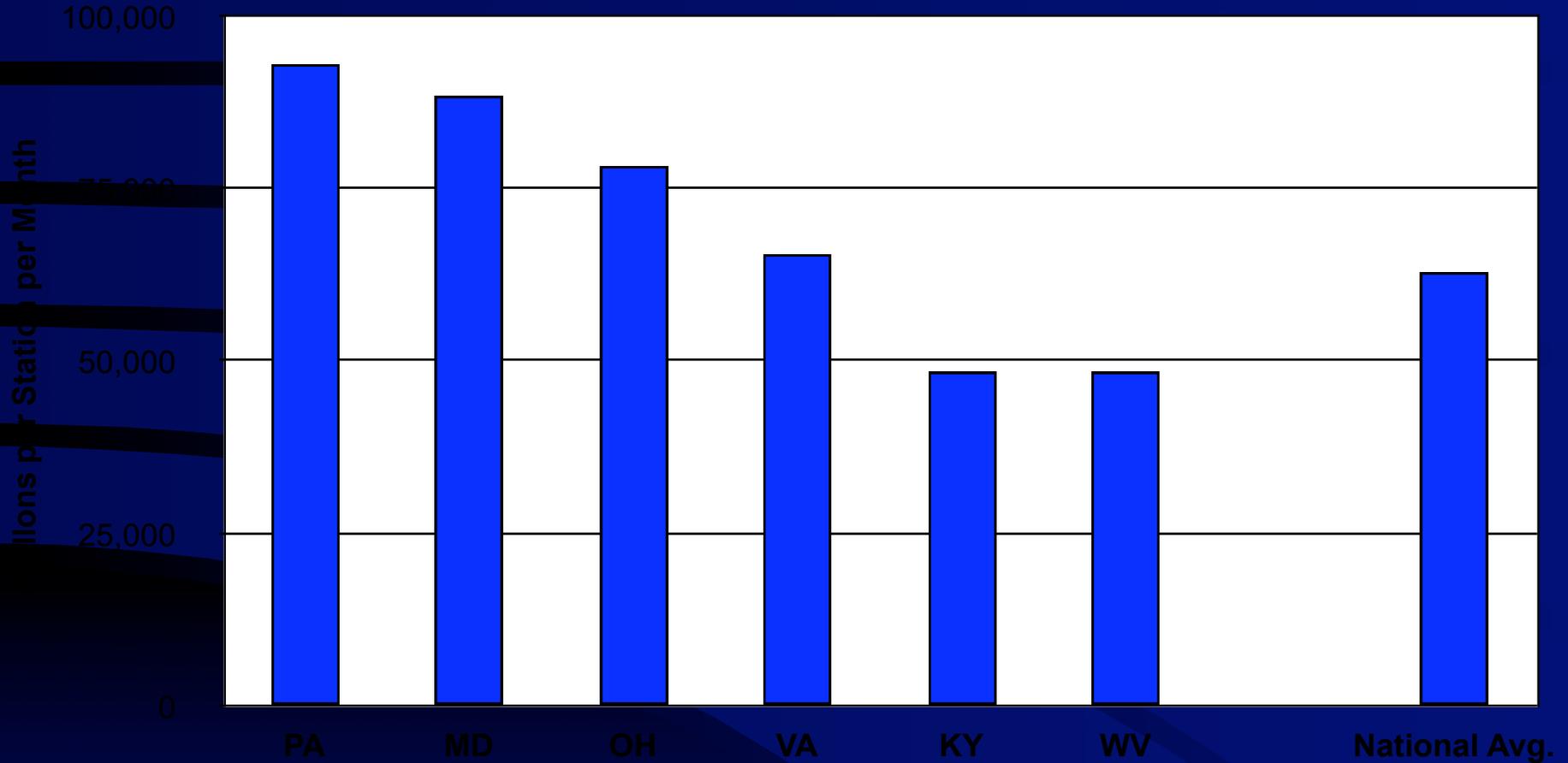
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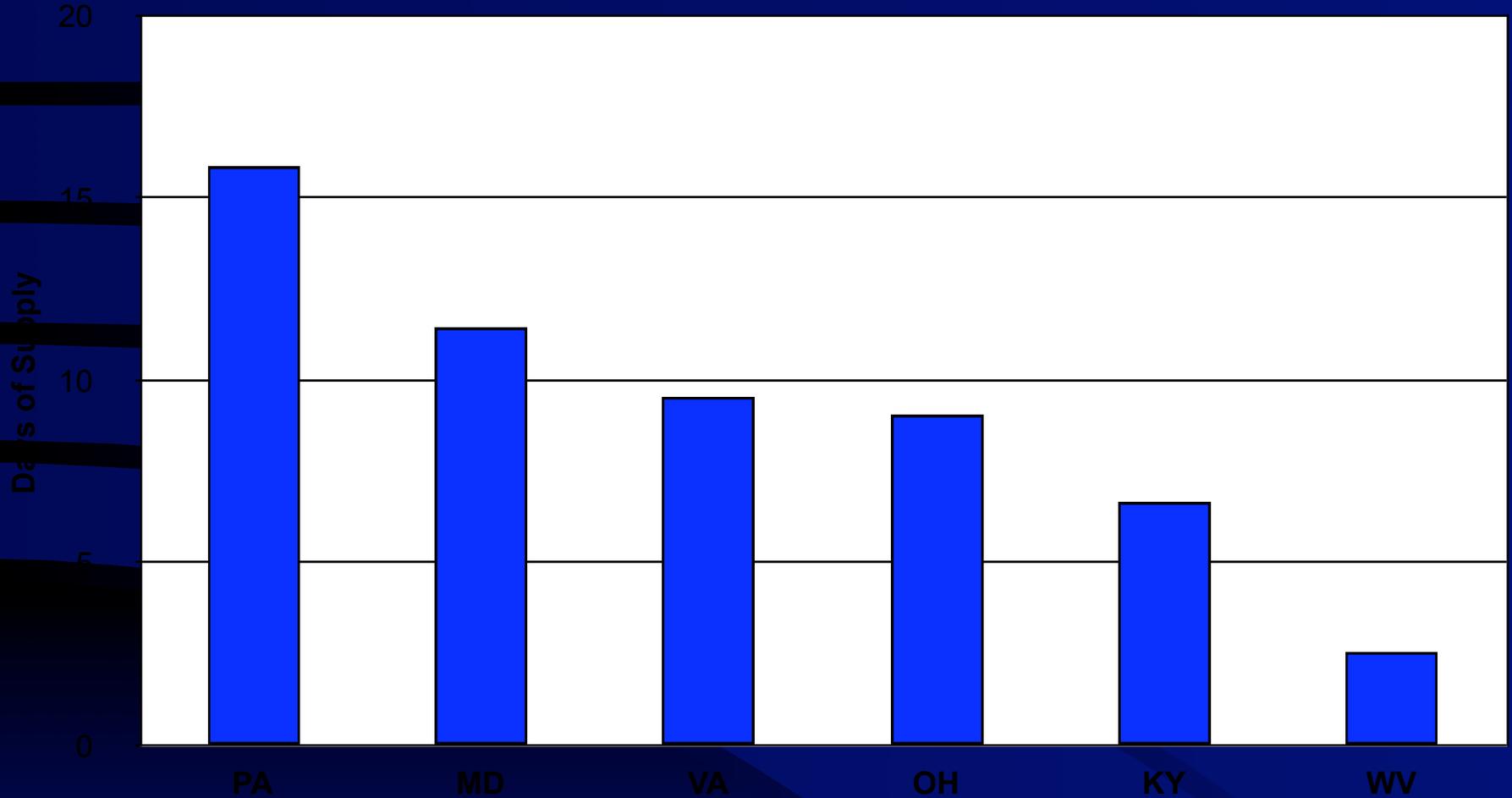
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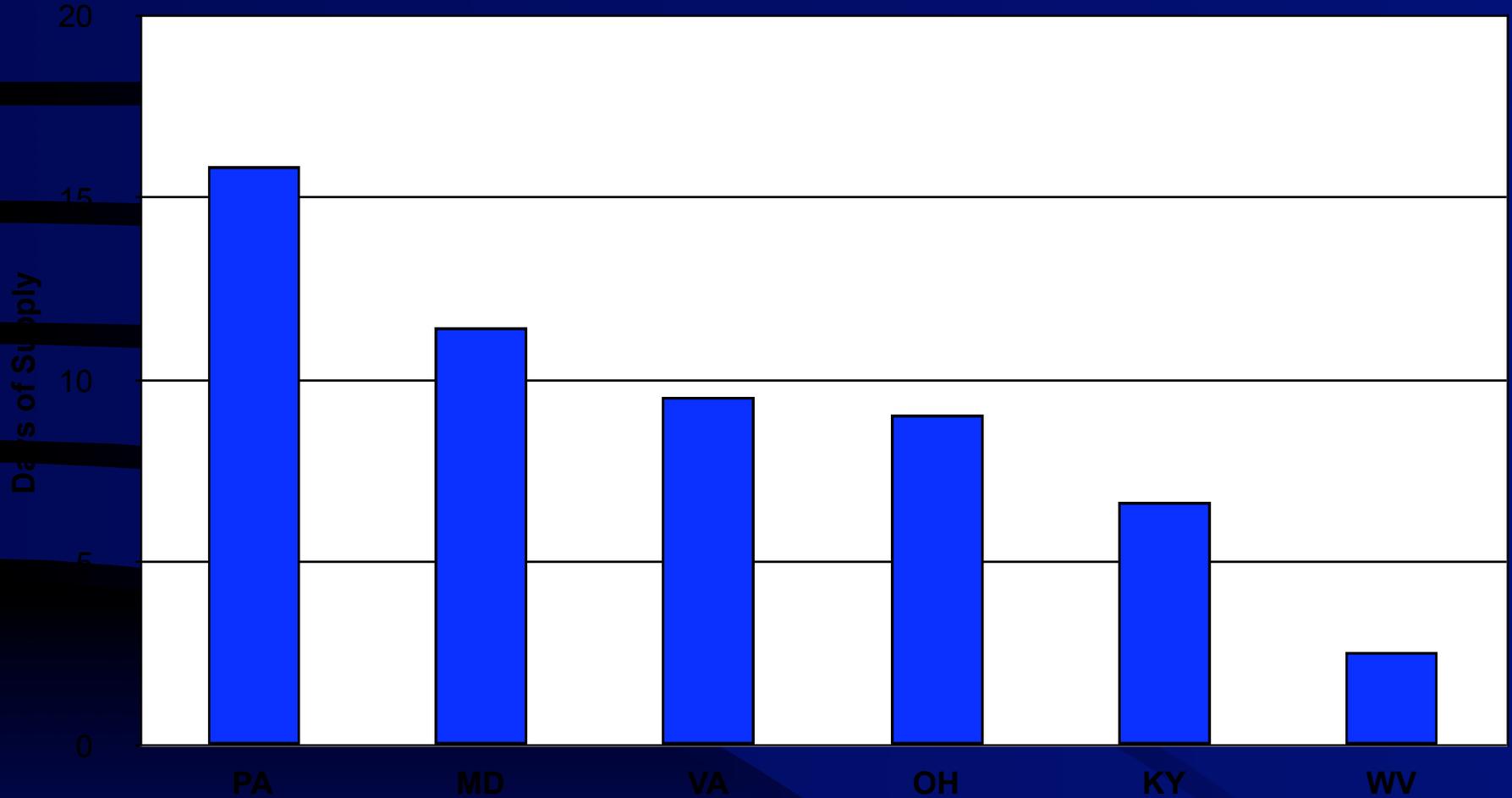


# Average Gasoline Inventory Levels by State



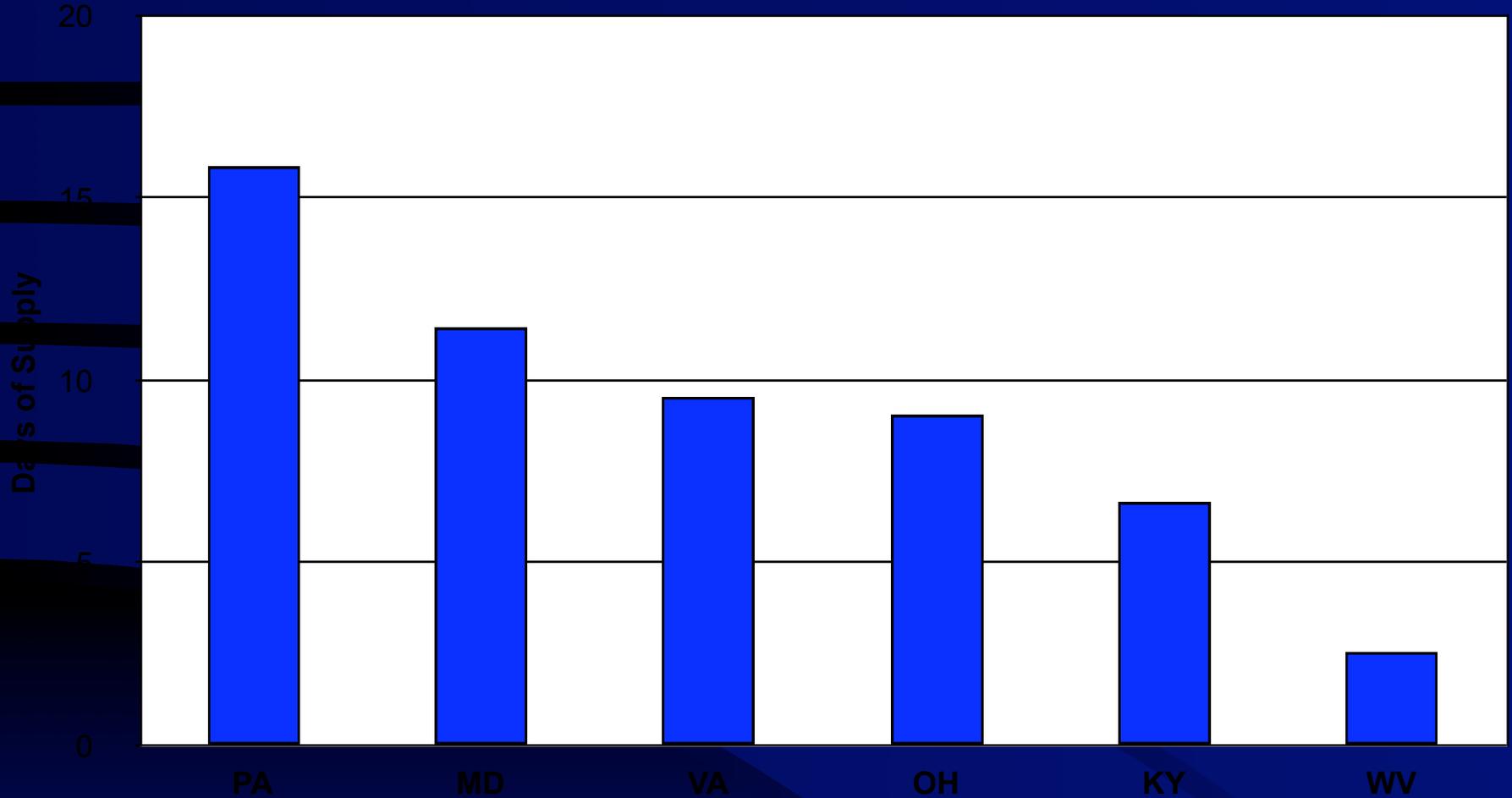
Represents the average number of days of gasoline supply held in inventory within the state.

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# From Dollars in Cost to a Penny in Profit

NACS®

## Retail Price

In 2006 gasoline prices averaged \$2.57.



Source: Oil Price Information Service

## Retail Gross Margin

The national average retailer markup for gasoline in 2006 was 13.76 cents per gallon. The estimated costs per gallon averaged 13 cents.

### Estimated costs per gallon (varies by retailer):

- 6 cents – store operating expenses
- 4 cents – credit card fees
- 2 cents – amortization of equipment
- 1 cent – inventory shrink



Source: Oil Price Information Service, NACS estimates

## Retail Pretax Profit

After factoring in expenses, retailers are left with an average of less than a penny pretax profit.



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