

# The Providence Journal

## Gas pains: Prices hit all-time high

**Only time will tell if the \$2-per-gallon level is a seasonal aberration or the new norm.**

**BY TIMOTHY C. BARMANN**  
Journal Staff Writer

Ouch!

Gasoline prices hit a record high in Rhode Island yesterday, topping \$2 a gallon at some local stations for the first time.

The average price of self-serve regular gas jumped 15 cents from last week to \$1.98 a gallon, according to a weekly survey of local gas stations by the state energy office.

The survey, conducted each Monday, found some stations selling gas as high as \$2.03 a gallon yesterday.

A similar survey by AAA Southern New England found an average price of \$1.97 a gallon.

Gasoline prices blew right past the previous all-time high of \$1.87 a gallon on Sept. 2, 2003.

The spike in gasoline prices has been blamed on several factors, with the key reason being the record cost of crude oil, the main component used to make gas. Crude oil accounts for about 46 percent of the price of gas.

Crude futures reached \$40 a barrel on Friday, a 13-year high. It receded yesterday to \$38.93 a barrel after Saudi Arabian Oil Minister Ali al-Naimi expressed concern that high prices could curb global demand and called on OPEC to increase oil production to ensure economic growth.

Another factor contributing to the price spike is low inventory levels of gasoline. Production is running at record levels this year, but inventories are low because imports are down, according to the American Petroleum Institute.

The Consumer Federation of America plans to release a study today that blames high retail gasoline prices on industry consolidation, reduced competition and "excess profits."

The study, the agency said in news release, shows that the nation's largest oil companies' deliberate restriction

of gasoline is the primary reason that gas prices are hitting \$2 a gallon.

Even though gasoline is at a record high, it is still not as expensive as it was in the 1970s and 1980s, when adjusted for inflation. Between 1979 and 1986, the average price of gasoline in the United States remained above \$2 a gallon, when measured in 2004 dollars. And today's prices are still well below those of 1981 and 1982, when the average price, in 2004 dollars, was \$2.82 a gallon.

Nevertheless, anyway you measure it, the price spikes this year have been painful and are throwing household and business budgets out of whack. The average price in Rhode Island has jumped 42 cents a gallon, or 27 percent, since January.

A two-car family that drives a total of 22,000 miles a year at 20 miles per gallon will pay about \$143 more this year than last year for gasoline, according to the Energy Information Administration, the statistical arm of the U.S. Department of Energy. The calculation uses data current through last month.

Another way to look at it: Every penny increase in a gallon of gas will cost that typical family about \$11 over the course of a year.

Is the latest price spike enough to change the behavior of U.S. drivers when it comes to how much they drive, whether they'll carpool to work, what type of car they buy, or whether they'll switch to mass transit?

Those who study gasoline prices and consumer behavior say that people may make minor changes to their driving habits in the short term, such as choosing to use the family car that gets better gas mileage, or shopping around for the lowest price for gas.

"In general, we don't see consumers driving significantly less when prices go up," said Jeff Lenard, a spokesman for the National Association of Convenience Stores, based in Alexandria, Va.

"There isn't a whole lot of fat in their driving habits,"

he said. "There's no Sunday drive any more. Most people aren't going to be able to call the boss and say 'I'm not going to work this week.'"

There are signs that high fuel prices are having an impact on the types of vehicles people are buying.

A study released last week found that 17 percent of people who are car shopping have changed their minds about which vehicle they plan to buy because of high fuel costs.

The study, conducted last month by Harris Interactive and Kelley Blue Book, found that 21 percent of those surveyed are considering vehicles that they had not considered before. "Many new car buyers are opting for vehicles that are more fuel-efficient than what they originally intended on buying," said Charlie Vogelheim, executive editor at Kelley Blue Book. Buyers are choosing 2-wheel drive cars instead of 4-wheel drive cars, and they are buying a smaller class of cars, he said.

But experts say that gasoline prices have not reached a level that would prompt major changes in driving habits and in the automobile market.

From a historical perspective, "gas prices are not abnormally high right now," said Jack McHugh, a legislative analyst for the Mackinac Center for Public Policy, based in Midland, Mich. The center is privately funded and promotes a free-market approach to commerce.

McHugh said the gas situation today is much different than it was in the late 1970s and 1980s.

In 1973, he said, crude-oil prices quadrupled in a matter of a few months. That rapid rise led people to see energy prices as being out of control, he said. That kind of thinking led to significant changes,

such as a push for higher fuel-efficiency standards for cars.

Today, Americans have grown used to volatile gasoline prices and they expect prices to rise each spring as refiners gear up for the summer driving season.

But if high prices remain the norm, people are more likely to change, some experts say.

"There's probably an assumption this is temporary," said Roger C. Tutterow, a professor of economics at Kennesaw State University in Kennesaw, Ga.

"If we continue to see high oil prices for a year or so, then we'll start seeing people make changes in terms of energy consumption habits."

Are more people riding the bus because of high gas prices?

It's too soon to tell, said Karen Mensel, director of marketing communications for RIPTA.

While ridership is up about 7 percent for the first 8 months of RIPTA's fiscal year, Mensel said RIPTA doesn't know whether that increase is attributable to gas prices.

"Traditionally we don't see a big increase in ridership because of hikes in gas prices," she said. "On the other hand, I don't think we've seen hikes like these."

Increased fuel costs have hurt the transit service, she said. The agency had budgeted to buy diesel fuel at \$1.14 a gallon. On May 5, the price was \$1.41 a gallon.